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Lloyds Bank Review



OCTOBER 1948

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II

THE NEW ACT

The Act provides for the investigation of monopolies and restrictive practices in industry and trade, and gives the Government special powers to deal with those which are found to work against the public interest. The work of investigation is to be carried out by a Monopolies and Restrictive Practices Commission, which will appoint its own staff. The Commission will operate only when the Board of Trade publicly refers to it a case in which the condition appears to prevail that a third or more of the goods concerned is supplied, or bought, or processed either by one firm or by a group who arrange to limit competition in any way. Exports are similarly treated. The Commission will determine its own procedure, subject to general directions by the Board of Trade, and may require any person to attend to give evidence and to provide documents and information relevant to the investigations. A reference to the Commission may call only for a report on the facts, in which case the Board need not publish the report. It may also ask for an opinion whether the public interest is, or is likely to be, adversely affected, and the Commission may suggest remedies: in such references the Board of Trade must publish the report, subject to certain safeguards in the interests of public security or to protect legitimate business interests. If the majority opinion of the Commission is that the conditions do not operate against the public interest, the House of Commons may nevertheless, if it thinks fit, declare by resolution that they do so operate. Some of the considerations are set out which both the Commission and the House of Commons must bear in mind when deciding any question connected with the public interest (*v.* the Explanatory Memorandum covering the Bill as taken to the House of Lords. Time alone will show how Parliament will interpret this intention, so far as concerns proceedings in the Commons.) Where it is found that the activities are against the public interest, a competent Minister may make orders subject to affirmative resolutions in both Houses of Parliament, applying remedies, which may include the prohibition of specified agreements or arrangements and of boycotts or conditional sales or preferential terms. They may be applied to any firm carrying on business in the United Kingdom in connection with its actions either

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inside or outside the country. No criminal proceedings can be brought for breach of an Order under the Act, but civil proceedings for an injunction or any other appropriate relief can be brought either by the Crown or by any person affected.

The Board of Trade may call upon the Commission for a report on the general effect on the public interest of restrictive practices of a specified class, if the previous reports of the Commission have covered particular examples and a general statement by the Commission of its views appears expedient. The Board of Trade itself must report annually to Parliament on the operation of the Act in each calendar year.

III

THE NEED FOR LEGISLATION NOT A PARTY ISSUE

Legislation on restrictive practices had been expected for some time. On 30th July, 1946, the Lord President confirmed the intention of the Government to introduce a bill, when time permitted, generally on the lines foreshadowed in the Coalition Government's White Paper on Employment Policy of May, 1944. The relevant paragraph in the White Paper ran as follows :

" 54. Workers must examine their trade practices and customs to ensure that they do not constitute a serious impediment to an expansionist economy and so defeat the object of a full employment programme. Employers, too, must seek in larger output rather than higher prices the reward of enterprise and good management. There has in recent years been a growing tendency towards combines and towards agreements, both national and international, by which manufacturers have sought to control prices and output, to divide markets, and to fix conditions of sale. Such agreements or combines do not necessarily operate against the public interest ; but the power to do so is there. The Government will therefore seek power to inform themselves of the extent and effect of restrictive agreements, and of the activities of combines ; and to take appropriate action to check practices which may bring advantages to sectional producing interests but work to the detriment of the country as a whole."

Parliament was therefore prepared, and the Bill occasioned surprise more for its moderation than for anything to alarm the Opposition, which was ready with its own proposals. The express omission of labour practices from the scope of the Bill meant that its direct impact would fall far more on the supporters of the Opposition than on those of Government members, and it says much for its merits, as well as for the co-operative attitude adopted by the Opposition, that its passage through both Houses was facilitated by the unusually effective collaboration of both sides, particularly in Standing Committee B. As the Bill assumed final shape, many of those who began by deplored its ineffectiveness came round to the view that they were witnessing the taking of an important first step. Hitherto the only method of calling attention to an alleged abuse of monopoly power was to organize an agitation in the hope that an interested Government Department would ultimately be moved to appoint an *ad hoc* Committee of Enquiry, without powers of requiring evidence and relevant documents, and, if its report confirmed the contentions of the initiators of the movement, for them to engage once more upon the still more difficult task of inducing the Government of the day, or an Opposition party, to include proposals for legislation in its programme and hope that Parliamentary time would eventually be found for a draft Bill. Henceforward, a Standing Commission with special powers of investigation, and a routine procedure of legislation by Statutory Order, promise far more expeditious and effective action whenever conditions are suspected which might operate against the public interest. Appropriate steps can now be taken before sectional advantage from restriction has become so entrenched as to make it difficult to secure even an enquiry under State auspices.

IV

THE INTERNATIONAL CASE FOR LEGISLATION

Serious as the growth of combines and spread of restrictive practices have been in the internal business of the country, those developments do not fully explain the decision of the Government to go forward with its bill. Impending international obligations, which this country cannot afford to neglect, must

surely have provided an important stimulus. The restoration of freer international trade is urgently necessary for our economic recovery, and the United Kingdom is vitally concerned to see that the International Trade Organization of the United Nations is quickly established and set effectively to work. An important section of the Charter of the Organization—Chapter V, Articles 46–54—is devoted to Restrictive Business Practices. Member nations will assume substantial commitments in this field of activity, and if they are to take their obligations seriously their Governments will in most cases need to assume new powers and establish effective new machinery at home. Dependent as she is on increasing international commerce, the United Kingdom cannot afford to lag behind any other country in promoting the success of the new Organization.

It will be recalled that the initiative in putting forward proposals for an International Trade Organization was taken at the beginning of 1944 by the United States of America. For almost sixty years the Federal Government has been active in combating monopoly in the United States, first by developing the Anti-Trust Division of the Department of Justice, under the Attorney-General, to administer the Sherman Act of 1890, and also since 1914 through the Federal Trade Commission, appointed by the President with the advice and consent of the Senate under authority of the Federal Trade Commission Act, to administer the Clayton Act of 1914 and subsequent legislation. Both organizations have been very active, and the United States Government has therefore long and wide experience of the many-sided problems involved in protecting the public interest against monopolies and restrictive business practices. Its proposals for Chapter 5 of the I. T. O. Charter were framed upon the presumption that effective international action was feasible only if each collaborating nation provided itself with that minimum of power and machinery which American experience had proved to be indispensable. One of the costs of Governmental activity in the economic sphere is that the affected private businesses have to maintain staff to deal with Government departments: so also, in international affairs, a nation which is determined to hold its own and attain its objectives must create adequate

machinery to maintain effective collaboration with other countries and with international bodies.

Preliminary conferences of the Preparatory Committee worked on the draft Charter in London in 1946 and in Geneva in 1947, and from November 1947 to March of this year the United Nations Conference on Trade and Employment at Havana determined its final form. The Final Act was signed on 24th March by the representatives of 53 countries, and the Charter now awaits ratification by Governments. It comes into effect 60 days after a majority of ratifications have been deposited. This country's obligations may therefore begin at any moment.

Chapter V of the Charter lists a number of restrictive business practices. A member state may lodge a complaint with the International Trade Organization that one or more commercial enterprises are engaging in any of these practices in such a way as to hamper the expansion of production or trade and to interfere with the achievement of the objectives of the Organization. These complaints must be investigated and member states undertake to make adequate arrangements for conducting investigations and presenting information and reports to the Organization. If it is found that the complaints are justified the Organization is to request the members concerned to take every possible remedial action and may call for a report on the action taken. Each member undertakes to take all possible measures to ensure that commercial enterprises do not engage in the practices specified. It is clear that the Monopolies and Restrictive Practices Act was necessary to enable the British Government to deal faithfully with these obligations. So far as Chapter V is concerned, it is now empowered to make ratification of the Charter fully effective and to take that share in the leadership of the International Trade Organization which its interests require.

V

THE NATIONAL CASE FOR LEGISLATION

It may thus be the case that international considerations persuaded the Government to find Parliamentary time for the Monopolies and Restrictive Practices Act more quickly than it would otherwise have done. If so, it can be counted

among the first important advance benefits that this country has derived from the International Trade Organization ; for the need for the legislation to cope with internal conditions is great indeed. Already before the War a strong case could be made out for legislation in this field : the exigencies of our war-time economy, the inevitable post-war aftermath of transitional problems, and the measures by which the present Government has chosen to attempt to give effect to contemporary national economic policy have added new opportunities for monopolies, afforded new encouragement to the adoption of restrictive business practices and seriously weakened the forces which could hitherto be expected to provide at least a partial check to their anti-social effects.

It is hardly necessary to explain here why monopolies may be harmful, why their encouragement should be avoided and their creation prevented wherever possible, and why the exercise of monopoly power should always be prohibited or at least rigorously controlled. We can never be certain that the mere existence of monopoly is not in itself harmful, for monopoly means that the competitive forces which usually prevent stagnation, compel efficiency and stimulate progress are not operative, and it is doubtful whether any satisfactory alternative stimulus can be contrived. We can, however, be quite certain that the exercise by monopolists of their monopoly power is always harmful, for they can turn it to their advantage only by increasing scarcity ; that is, by raising prices and selling less. If they do not do this, their monopoly is of no use to them. They may, of course, be cunningly discriminating in the use of their power, reducing supplies least where the advantage would be small or the public outcry large, and concentrating their restriction on demands from which they can extort the greatest profit without incurring widespread odium ; but to gain, they must restrict somewhere. Consumers get less of the goods and services they would prefer to have, and the reduced output means that productive resources are shut out of the uses in which consumers would prefer that they should be employed, so that the displaced workers and owners of resources have to accept less remunerative employment, if it is available, elsewhere.

Hitherto reliance has been placed for the most part on

the strength of competitive forces to restrain both the development of monopoly and the exploitation of monopoly power in this country. If our economic institutions are well designed and promptly adapted to suit changing conditions so as to permit easy mobility of productive resources in response to consumers' demands and free consumers' choice between alternative supplies, limited only by the terms of contracts freely made, most monopoly conditions cannot exist for long, unless no attempt is made to take advantage of them. The position is very different when Governments seek to give effect to their national economic policies by methods which disturb the free play of market forces. Unwittingly, perhaps, they then confer privileges and impose handicaps which cannot legally be evaded but remain to breed monopoly and restrictive practices. If, on the other hand, Governments implement their policies by applying general deterrents and stimuli to particular activities, using such instruments as taxation and subsidy, or vary their monetary policy so as to provide a still more general stimulus or deterrent, then competitive forces may still operate to correct the temporary maldistribution of resources, the wastes and the shortages which inevitably recur so long as people living in a changing world differ in their reading of the future, their knowledge of the present and their interpretation of the past.

A freely operating market is even more effective in defeating the efforts of groups of firms to secure monopoly advantages by the use of agreements and arrangements. A single monopolist may stubbornly cling to a policy of restriction for some time after competitive forces have eaten into his market and stimulated new or substitute supplies. A concerted attempt at group-monopoly will not persist so long in like conditions, for the conspirators have to watch each other, as well as new competitors and old consumers. Penalty clauses for breach of restrictive agreements may look formidable on paper, but breaches are not publicized, and when the fact of substantial leakage shows itself in declining sales, a panic-stricken rush for the boats may ensue, which no penalty clauses can stem.

It has been due primarily to the increasing tendency of successive Governments in recent years to implement their

economic policies by the wrong means that the market mechanism has ceased to operate sufficiently freely to defeat all the restrictionist forces at present at work. Moreover, Governments themselves have not shown signs of appreciating the effects of their own activities or the harmful consequences for which they are responsible. Undoubtedly many of the business groups operating restrictive agreements do so openly, with the full cognizance of the Government departments mainly concerned, in the belief that their actions are approved in official quarters, and are bewildered by the castigation to which they are occasionally subjected by departmental committees when the gradual deterioration of productive or marketing efficiency precipitates an enquiry. There has been much vacillation and confusion of thought. Particularly in the years of business depression between the wars, the impression gained ground that restrictionist policies which sought to maintain particular capital values also benefited investment in general; that the sharing of markets in order to maintain high-cost plants in operation, the regulation of the rate of technical improvement in order to conceal the fact of obsolescence, the hindering of the entry of new firms on the ground that competition was already excessive, not only furthered sectional interests but also contributed to general well-being. When Governments abstained from assisting restrictionism they rarely condemned it. While the more glaring valorization schemes could not be defended, a little restriction was often thought to be a good thing.

VI

CONFUSION IN THE COURTS?

One serious consequence was that the courts lacked clear guidance from the legislature in deciding where the public interest lay. When disputes were brought to Court, involving new departures in the realm of restraint of trade, decisions were sometimes reached which, by their avoidance on traditional lines of incursions on the freedom of contract, tended in the rapidly changing market conditions, due to the new character of Government intervention, to encourage the spread of restrictive business practices. In the words of the late Professor

Dicey,¹ the views of judges are apt to correspond to the opinions of the day before yesterday.

The position was set out clearly in a report on Restraint of Trade issued in 1931 by the Board of Trade. It contained the findings of a committee appointed by the Lord Chancellor and the President of the Board of Trade, and presided over by the present Master of the Rolls, then Mr. Wilfrid A. Greene, K.C., to consider the practice of re-sale price maintenance. The committee set out what it believed to be the law on the subject, in a passage from which the following extracts are quoted :

“A man has the right to trade as he pleases. . . . The right to combine in defence of, or in support of, trade interests is recognized just as is the right of a man to contract with whomsoever he pleases. Some 40 years ago Lord Justice Bowen said in the course of a judgement : ‘ If peaceable and honest combinations of capital for purposes of trade competition are to be struck at, it must, I think, be by legislation, for I do not see that they are under the ban of the common law.’ The law remains the same to-day. It cannot be doubted that there has been a tendency for combines or combinations to increase in number and in importance. . . . If the real purpose of the combination is, not to injure another, but to forward or defend the trade of those who enter into it, then no wrong is committed, and no action will lie, although damage to another ensues, provided that the purpose is not effected by illegal means.”

The committee found that it was common for manufacturers to enforce re-sale price maintenance conditions upon wholesalers and retailers by threat of individual or joint boycott, or by actual boycott. The general conclusions of the committee included the following paragraphs :

- “ (a) We hold that the ordinary right of freedom of contract ought not to be withdrawn without some compelling reason.
- “ (b) We do not regard the price maintenance system as free from disadvantages from the public point of

¹ Quoted by Vinogradoff in “ Common-Sense in Law ”, p. 196.

view, but we are not satisfied that if a change in the law were made there is any reason to think that the interests of the public would be better served. . . .

... (f) The trade practices into which we have enquired impinge upon a much wider problem—the problem of monopolistic combinations and trusts—which is outside the scope of our reference. If, at some future time, the question of public policy in relation to this wider problem should be examined, the possibility of support being given by the price maintenance system and boycotts to monopolistic combinations and trusts ought, we think, not to be overlooked."

To-day the shortage of manpower in the export industries is seriously limiting their expansion, and the maintenance of distributors' margins, which now have Government sanction, appears to have resulted in the support of many more shops and distribution personnel than can be fully occupied in supplying the public with the limited quantities of goods available. Another departmental committee is currently engaged in re-examining these restrictive trade practices from the standpoint of the public interest.

VII

THE SPREAD OF RESTRICTIVE PRACTICES

During the Parliamentary debates on the Monopolies and Restrictive Practices Bill the President of the Board of Trade referred to the reports of two recent committees which illustrate the complexity and range of the monopolistic practices with which the new standing Commission will be concerned. It may be useful if the present writer, who served on both of these committees, describes the types of arrangement reviewed in their reports which, in his view, urgently require the attention of the Commission.

One committee, presided over by Lord Simon of Wythenshawe, was concerned with the Distribution of Building Materials and Components, and its report was published this year. It found that in this field monopoly, quasi-monopoly, and restrictive practices have reigned almost unchallenged for many years. It described in particular a broad pattern of formal or tacit agreements or analogous arrangements between manu-

facturers and merchants, with effective sanctions behind them, whereby the manufacturer undertakes to supply the merchant on specially advantageous terms (through "Association" discounts and deferred rebates operating as loyalty ties), and the merchant in return agrees to maintain re-sale prices and not to handle the products of manufacturers who are not in the ring. The committee set out its reasons for considering that these arrangements were not in the public interest, and should be made illegal. In the course of its enquiries it formed the impression that the arrangements in the trade in building materials were closely analogous to agreements which were widespread in other trades. It should be added that since the publication of the report the merchants and manufacturers concerned have made it clear that they will welcome the opportunity to co-operate with the appropriate authorities in any endeavour to put into effect such steps as may be agreed to be in the national interest.

One other trade practice which was examined by the Simon Committee illustrates the need for a standing commission which could carry out a series of related enquiries. The Committee investigated the "multiple basing point system" applied to the cement trade since 1934 by the Cement Makers Federation, which assures that a uniform delivered price is quoted by all United Kingdom suppliers for consignments to any one destination. Somewhat similar arrangements operate or have operated in a number of other industries, including particular products of the iron and steel industry. The price of cement delivered-to-site is based on the nearest works or coastwise importing centre, whether or not the cement is actually delivered from that source. A fixed delivery charge is included for each five miles of radius outside an immediate five mile radius of each basing point. The basing point price "is fixed by the Federation without reference to the actual cost at that point, and may in many cases be such as excludes potential buyers in the vicinity who would have taken supplies at prices nearer to the cost, while charges made for transport to more remote localities do not in general cover the full transport costs concerned. The effect, therefore, is that the price ex works charged to distant users is generally speaking lower than that charged in the local market."

One possible result is to deter the establishment of new cement works in some of the more distant locations; another is to keep the prices charged to users located close to the factories higher than they need be. The Committee questioned, therefore, whether the multiple basing point system should not be prohibited. It recognized that, in some of its consequences on the pattern of industrial location throughout the country, the system might incidentally assist developments in areas where social or strategical reasons existed for welcoming them, but it did not consider that such objectives should be left to be attained by the chance coincidence of the commercial interests of an industrial group with the objectives of public policy. "If," it said, "temporarily and while new capacity is being created, it is considered desirable that users in distant markets should be subsidized, there are more direct, more equitable and less wasteful methods available."

It is relevant to note in this connection that in the United States a comparable multiple basing point system has operated for many years in the cement industry, as well as for steel and other materials. The cement case has been the subject of prolonged investigations by the Federal Trade Commission, which in due course used its powers to enter an order against the Cement Institute and associated companies to cease and desist from the practice as a violation of Section 2 of the Clayton Act. The order was vigorously contested in the Courts; but recently, coinciding in time with the publication of the Simon Committee Report in this country, the U.S. Supreme Court has upheld the Federal Trade Commission in its contention that the basing point system of identical delivered prices is an illegal restraint of trade.

VIII

MONOPOLISTIC TENDENCIES INDUCED BY GOVERNMENT ACTION

The other Committee to which Mr. Wilson made reference in the House was that appointed at the end of 1943 by the Cinematograph Films Council, and presided over by Mr. A. Palache, in response to a request by the President of the Board of Trade for advice "on what further practical measures, if any, are necessary to check the development of monopoly in

the film industry." The Report was submitted in July, 1944, and published under the title "Tendencies to Monopoly in the Cinematograph Film Industry." It is not necessary for our present purpose to summarize its findings, but the Report serves well to illustrate how easy it is for a Government, when introducing legislation designed to require business men to behave in certain ways, to create new conditions which encourage the development of new practices of a restrictionist kind.

For twenty years, beginning with the Cinematograph Films Act of 1927, the Government has endeavoured to promote the production of cinematograph films in this country by requiring that a specified proportion of screen time in the cinematograph theatres shall be devoted to the exhibition of British films. In order that exhibitors should be free to book the requisite number, statutory limitations were placed upon "block-booking", so that the distributors of films should not be able to insist on exhibitors contracting ahead to hire too many foreign, or unsuitable, films, as a condition for getting those they wanted; and also "blind booking" was limited by requiring that films should be trade-shown before release for exhibition. An apparent consequence, which was surely unintended, was to upset the normal market arrangements for financing film production. Feature films are costly to make and their success is rarely predictable in advance. Investors naturally wanted safeguards in terms of assured box-office receipts: producers with expensive organizations to maintain naturally wanted continuity of finance to cover a series of projected pictures. The limitation of block and blind booking meant that the producer and distributor could no longer provide satisfactory assurances to the investor that the films when made would be sufficiently widely booked and exhibited. It is surely no mere coincidence that the growth of the large circuits of cinemas, "vertically integrated" with film distribution and production, dates from 1928; they provided the investor with the required assurance of exhibition so far as concerned films made by the associated producers. But the financial problems of the independent producers remain unsolved, unless the latest Government plan to establish a Film Finance Corporation succeeds in overcoming the obvious

difficulties. Because a booking by one of the major circuits is apparently essential for the success of a feature film in this country, the Government recently secured an undertaking (now a statutory requirement under the 1948 Act) that the vertically-integrated concerns will, if so requested, show a minimum number of independently produced films each year. What of the independent exhibitor? The bargaining power of the circuits gives them a great advantage in obtaining a "first release" booking of all the feature films in greatest demand, and customary trade "bars" severely limit the extent of contemporaneous exhibition, with the result that independent exhibitors in the competitive areas throughout the country complain of great difficulty in securing sufficient feature films to meet their statutory quota requirements while still new enough to retain their box-office value; and quota defaults have been widespread. Provision had, therefore, to be made in the 1948 Act for reduced quota requirements for cinemas in competitive situations, and over half of the theatres in the country have made formal application for partial or complete relief. The conclusion seems inescapable that twenty years of legislation to secure for British films an increasing share of cinema screen-time throughout the country has in itself contributed to the encouragement of monopolistic tendencies and restrictive arrangements, and a new pattern of finance, ownership and control within the industry, which considerably hamper the attainment of the main objective in a large and important proportion of the cinematograph theatres. The President of the Board of Trade has recently announced the release of a covey of new committees, in addition to the statutory Cinematograph Films Council, to grapple with some of the new difficulties which have arisen. There will still remain a number of formidable problems which fall within the scope of the Monopolies and Restrictive Practices Act to engage the attention of the investigating Commission. In the United States, where the domination of the exhibition theatres by the major vertical combines is probably still much weaker than in this country, the Department of Justice has this year secured judgements from the Supreme Court condemning the selling practices of the major motion picture companies, under the terms of the Sherman Anti-trust Act, and ordering a divestiture

of joint ownership of theatres by producer-distributors and exhibitors upon a scale which bids fair to restore a large measure of independence and a more freely competitive market.

IX

GOVERNMENT CONTROLS AND MONOPOLY

Developments in the British cinematograph industry illustrate in one other way what is probably the most potent single cause of the recent increase in restrictive agreements throughout the economic life of the country ; that is, the detailed Government planning of production, distribution and foreign trade necessitated by war-time controls and, more debatedly, continued since the cessation of hostilities. The prohibition of building construction except under licence, designed to conserve scarce materials, equipment and manpower for projects of first national priority, prevented the erection of new studios for film production at a time when the majority of the available production stages were owned or controlled by the major vertically-integrated companies. This has been one of the main impediments to an expansion of independent production of feature films. More generally, it is certain that the necessity during the War to allocate scarce materials and resources between industries and firms in accordance with a centrally planned production programme has strengthened the tendency to monopoly. War-time industrial concentration closed down many of the smaller firms ; the retention of the system of allocations of materials between firms within an industry in proportion to consumption in a base-year has hindered the establishment of new businesses since the War and certainly checked their expansion ; the control of selling prices and distribution margins at levels which permitted the survival of relatively inefficient firms (as was frequently necessary during the War) and the allocation of markets imitated the practices of the private cartel, and the necessity for Government departments to negotiate through trade associations has strengthened their position and widened their spheres of influence. So long as Governments continue to require their departments to attempt to plan in detail they must expect their systems of control by licence to promote monopolistic tendencies. The Parliamentary Secretary to the

Board of Trade assured the House during the debates on the Monopolies and Restrictive Practices Bill that there was already more than enough work waiting to occupy the new investigating Commission in its first year. One of the most effective steps which the Government could now take to keep the volume of investigation within manageable limits would be to stimulate new enterprise by speeding up the abolition of its detailed controls. In Canada the Government left the business world in no doubt as to its intentions after the War when it closed down its office of Price Administration on one day and re-appointed its director as from the following morning to his former position as Combines Investigation Commissioner, under the Minister of Justice.

X

HOW ADEQUATE IS THE ACT?

Turning now to the provisions of the Act itself, it will probably be generally agreed, even by those who most strongly criticized the shortcomings of the original Bill and still deplore the glaring omissions which remain, that the Act can take us an important step forward towards that greater freedom for business enterprise on which the country's economic future depends. Important improvements were made on the original draft during the passage of the Bill through Parliament.

Most crucial is the question of the quality of men who can be persuaded by the Board of Trade to accept appointment as members of the Monopolies and Restrictive Practices Commission. The responsibilities and duties will clearly be arduous, and the qualifications possessed by the Commission taken as a whole must be wide and include a variety of special aptitudes and experience. If the numbers are kept small at the outset, the members must reconcile themselves to finding their time almost fully absorbed by the work of the Commission. Men who combine adequate experience with undoubted impartiality are naturally few in number: if they must also expect to give virtually full-time service for a relatively limited term of appointment the number is again substantially reduced. In Standing Committee B, Mr. Oliver Lyttelton stressed the importance of not appointing "extinct volcanoes", whether retired civil servants or worn-out business men. The President

of the Board of Trade made it clear that part-time members were not excluded, and agreed to raise the minimum number from three to four and the maximum from eight to ten.

A further question which will occasion anxiety is the willingness of men of sufficient eminence to command public respect to accept the somewhat subordinate status contemplated by the relations of the Commission to the Board of Trade. For instance, in contrast with the Federal Trade Commissioners in the United States and the Combines Investigation Commissioner in Canada, the Monopolies and Restrictive Practices Commission will have no power to initiate enquiries. They will work under the direction of the Board of Trade, in practice, no doubt, to the instructions of a civil servant. It is not inconceivable that at some future date a President might take office who disliked enquiries into business affairs and would prefer that the time of the Commission should be filled with nothing but the most trivial of investigations. It is not even clear that they will be permitted the privilege of a periodical public account of their stewardship, their achievements and their disappointments ; the annual report to be laid before Parliament on the operation of the Act is to be made by the Board of Trade. No doubt there will be full consultation between the Board and the Commission, before a new reference is made to the Commission, and an opportunity given to it to make clear the tasks which its members consider most urgent ; no doubt also the Board can undertake invariably to include a report by the Commission itself in its annual report to Parliament, but if men of the right stature are to be attracted it may prove necessary to give assurances on such matters.

There will be widespread disappointment that the monopolistic practices of nationalized industries are apparently to be excluded from the investigations of the Commission, and the explanation for their exclusion given in the Standing Committee, that the conditions under which these monopolies operate have already been laid down by Parliament, is not entirely convincing. It is equally true that under the Patents and Designs Acts the conditions attaching to the exercise by patentees of the monopoly privileges thereby conferred upon them have been laid down by Parliament, but patent monopolies

are explicitly included by Section 2 of the Monopolies and Restrictive Practices Act within the scope of matters which the Board of Trade may refer to the Commission, and there will be great satisfaction that this has been done. It is in no way derogatory to the Comptroller General of Patents, Designs and Trade Marks, or to his staff, to say that the investigations and decisions which he is required to make in connection with complaints of abuse of monopoly rights under Section 27 of the Patents and Designs Act may involve economic and legal questions of such breadth and subtlety that the collaboration of a detached and expert Monopolies and Restrictive Practices Commission will prove of the greatest assistance to him. In the case of the nationalized industries, the rôle which the Commission might play if monopoly problems were referred to it is not merely that of watchdog of the public interest in regard to the practices within a particular industry, however useful that function might be. An even more valuable rôle might be that of an investigating body to make comparative studies of problems of the public operation of monopolies as they arise in the various nationalized industries. It is important to recognize that we are still far from agreement on the general principles which public authorities should apply in determining the right policy as to the level of charges and the scale of operation of monopolized industries and services. Should monopoly power be exercised by a nationalized undertaking as an instrument of taxation, by discriminating in the charges made in different regions, or to different classes of consumer, not on a cost basis, but rather in order to subsidize one group at the expense of another? Ought aggregate receipts to be so adjusted as to equal aggregate costs, and if so what expenditure is it appropriate to include as costs? On matters such as these the reports of a Commission experienced in comparing the behaviour of different private monopolies, and of one public monopoly with another, might throw valuable light on the question of wherein really lies the public interest.

The exclusion of labour practices from the Act is understandable, and indeed there is substance in the argument that separate machinery is necessary. It should, however, be borne in mind that in Canada and the United States, where labour

practices are also excluded from the scope of the authorities investigating restrictive business practices, serious embarrassment has been caused in cases in which the restrictive aims of business groups have been achieved by the restraints imposed by labour unions, in refusing to instal equipment or process material which did not pass through particular channels of distribution. The Anti-trust Division of the U.S. Department of Justice found themselves unable to intervene in cases in which beneficial competition in the distribution of plumbing supplies was prevented because members of plumbers' unions would not work for master plumbers who did not obtain supplies through particular channels. Business men will co-operate the more readily in eliminating restrictive practices if they are assured that labour practices cannot be employed to circumvent the Monopolies and Restrictive Practices Act.

XI

The Monopolies and Restrictive Practices Act has already been accorded a favourable reception by the business community and there is evidence of a widespread desire to co-operate helpfully with the new Commission. The concluding sentence of a memorandum issued by the National Council of Building Material Producers, following upon the publication of the Report of the Simon Committee on the Distribution of Building Materials, is perhaps representative :

" We are confident that this Statutory Commission will take complete evidence from all parties affected and that their conclusions will point the way to accepted conditions in which healthy co-operation within industry can flourish, as is so necessary for the prosperity of this country."

Undoubtedly the Commission will find it profitable to devote much of its time in the early stages of its career to educative work. A wise discrimination by the Board of Trade in the selection of the first few cases for investigation would give the Commission a great opportunity to prepare reports whose repercussions would quickly become apparent over a field of business far wider than that indicated in the references by the Board. The business community and its trade associations

have been kept waiting far too long for guidance in bringing their business practices into line with national economic needs. I believe that they have high expectations and are ready to be told what to do. There will be great scope for recommendations embodying ideas reached by consultation and agreement. Few of the findings of the American courts in recent years have achieved so much as the "Consent Decrees" which record the results of negotiations between the Department of Justice and the representatives of firms engaged in particular fields of business.

Two things remain to be said. The first is to wish the President of the Board well in his search for members of the Monopolies and Restrictive Practices Commission who will command the respect of the business community and strengthen the confidence already engendered. The second is to remind the Government that the Act can do little more than exorcize the devil of restrictionism and conjure up in its place the expansionist spirit which the nation so sorely needs. It can only help to free the way for economic progress. To restore and encourage enterprise the Government must look again at other aspects of its national economic policy.

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III Post-War Economic Problems in Denmark

By Professor Carl Iversen

DENMARK'S post-war economic problems are in many ways similar to those which have confronted Great Britain. This may have tended to make trade negotiations between our two countries somewhat more difficult than they used to be, but it should at least make it easier for British readers to understand the present economic situation in Denmark.

To place this in its true perspective it will be necessary to outline briefly both the country's pre-war economic structure and the economic consequences of the German occupation. This is attempted in the first two sections below. Then follows a discussion of two important problems with which we were faced immediately after the liberation: the level of exchange rates and the restoration of the currency system. And, finally, the last three sections deal with the major issues facing us to-day: the avoidance of further inflation and the promotion of reconstruction.

The problems confronting Denmark immediately after the War are discussed in a comprehensive report prepared in 1944-45 by a semi-official committee on post-war economic planning, popularly referred to as the "Professors' Committee."¹ The essential features of the development in the three years since the liberation may be seen in our first National Budget, published by the Government in the summer of 1948. This budget relates to the calendar year 1948, but for comparison figures are given for the preceding years.²

DENMARK'S PRE-WAR ECONOMIC STRUCTURE.

Denmark is generally regarded as the typical agricultural country, yet it appears that only 22 per cent. of our national product originates from agriculture, while 36 per cent. is

¹ Økonomiske Efterkrigstidsproblemer I. København, 1945. 176 + 118 pp.

² Danmarks Nationalbudget for Aaret 1948. København, 1948. 131 pp.

derived from handicrafts and industry.¹ Moreover, even Danish agriculture to-day may in a sense be called an industry ; our farms, dairies and slaughter houses make up, in effect, a sort of factory system turning home-grown and imported vegetable raw materials into refined animal export products. This, however, is the result of a comparatively recent development. Prior to 1880 we exported considerable quantities of grain to England ; but, as a result of the flooding of Europe by cheap corn from overseas, animal husbandry, with increasing imports of grain and oilcakes, became the predominant feature of the country's agricultural system.

That this change in the direction of production could bring relief to Danish agriculture was due mainly to two factors. As refrigeration technique was not yet known, it was practically impossible to send butter from New Zealand to England. Further, butter and bacon required much more labour for their production than grain, and labour was scarce and expensive overseas but comparatively cheap in Denmark. To-day these two advantages have largely disappeared ; cold storage has been invented, and the milking machine has taken the place of hand-milking in New Zealand. Moreover, Danish agricultural wages have tremendously increased.

Though a few industries, e.g., the cement industry, owe their existence to domestic raw materials, the country, on the whole, possesses few natural resources of importance to industry. Normally, easy access to cheap sea transport has made up for this deficiency. But during the War and in the present position of scarcity our dependence on imported fuel and raw materials has been a considerable disadvantage.

The supply of capital has also been comparatively scarce in Denmark, which, as a result, has been a debtor country for more than two generations, though this does not seem to have seriously hampered our industrial development in the past. To-day, however, the rate of domestic savings is of

¹ The composition of the gross national product for 1947 is estimated as follows :

	Per cent.
Agriculture, forestry, fishing	21.8
Handicrafts, industry, building and construction	35.7
Trade, finance, entertainment	17.7
Transport	7.5
House rents	4.8
Liberal professions	4.9
Public services	7.6
	<hr/>
	100.0

great importance if reconstruction is to be successfully tackled.

The chief industrial asset of Denmark has been her efficient and well-trained working population. Even in agriculture the "industrialization" referred to above has made nature's part somewhat less prominent and the importance of our enlightened farming population correspondingly greater. The lack of domestic raw materials and this relative abundance of skilled workers have united in making Denmark concentrate on secondary industries producing finished goods of high quality.

A country's productive structure depends, however, not only on the availability of the different factors of production, but also on the size of the market. The fact that Denmark is a small country with only four million inhabitants has been a serious handicap in many lines of production.

There are, even so, several Danish industries in which an extensive home market has afforded the basis for a remunerative export business, many of them connected with agriculture, while others are complementary to our fishing and shipping trade. In the years before the last War, Denmark ranked fourth amongst the shipbuilding countries of the world. In other cases, notably shoe manufacturing and the textile industry, consumers' demand has been spread over such a great variety of designs and qualities that the narrowness of the market has impeded effective competition with imports. In such branches production could be maintained only by means of protection.

Thus we come to trade policy, the third of the main factors which have determined Denmark's productive structure. Until 1932 Denmark, like Great Britain, pursued in the main a free-trade policy; tariff rates were very moderate and commercial treaties were based on the most-favoured-nation clause. A certain change was necessitated, however, by the obstacles put in the way of our exports by protective measures abroad in the years of depression after 1930 and in 1932 an import licence system was created which has been in operation ever since.

The primary object of this control of imports was to limit their total value (in relation to the value of visible and invisible exports) sufficiently to maintain a stable sterling rate of exchange. In addition, the system was used as a means of directing our purchases abroad towards those countries where our exports could most readily be sold. In 1930 only 15 per cent. of Denmark's total imports came from Great Britain;

before the outbreak of the last War the figure had risen to about 35 per cent., a truly remarkable readjustment. Finally, the control of imports aimed at reducing the large volume of unemployment. As time went on the system yielded a considerable amount of protection to many Danish industries catering for the domestic market.

In all the Scandinavian countries prosperity depends to a large degree upon external trade. In 1938 our imports amounted to about 25 per cent. of the total national product; in the 'twenties the percentage had probably been between 30 and 40. For us, no less than for Great Britain, the slogan must therefore be: "Export or die."

Until the First World War 90 per cent. of our exports consisted of agricultural products. Industrial development in the inter-war period brought the percentage down to 75, yet it was still agriculture which provided the greater part of the foreign exchange necessary to pay for our imports. Butter and bacon each accounted for more than one fifth and eggs for almost one tenth of our total export value in the years preceding the last War. Of bacon and eggs Denmark exported considerably more than any other single country, whereas the butter export of Denmark and New Zealand was of about the same volume.

Our most important export market in the past has been Great Britain which took more than half of our total exports in 1938, Germany ranking second with about one fifth. Of total British imports of bacon, we supplied 45 per cent. Of eggs we supplied 40 per cent. and of butter 25 per cent. Even in 1938 Danish trade with Great Britain showed a large export surplus though, as already mentioned, it had been considerably reduced in the course of the 'thirties. It is evident, then, that Danish foreign commerce was intimately bound up with the system of multilateral world trade in which Great Britain was the strategic factor; in the days of free convertibility our net sterling receipts were being used to pay for feeding stuffs in the Americas or the Far East. As a consequence the present disruption of world trade is of grave concern to Denmark.¹

The large proportion of our national product dependent on foreign trade and the concentration of the greater part of our export volume on a few commodities and still fewer markets has also made our economy highly sensitive to cyclical move-

¹ Additional figures relating to Denmark's external trade are given on page 70 in the Statistical Section, together with other tables showing recent financial and economic trends.

ments abroad, as was clearly revealed during the depression after 1929. Difficulties were aggravated when Great Britain left the gold standard in 1931. The Danish krone followed the pound off gold, it is true, and later on it was further depreciated to the same extent as the New Zealand pound. Yet these measures failed to stimulate exports sufficiently, and resort was had to the control of imports I have already described. A country in a precarious position like this might well be reluctant to limit her freedom of action in similar cases of emergency. But after careful consideration Denmark readily accepted the obligations of the Havana Charter, and it is generally recognized that the recovery of the standard of living to the high level enjoyed by our people before the War is intimately bound up with a revival of international trade.

THE GERMAN OCCUPATION

The War and the German occupation cost Denmark about 12,000 million kroner (£625 millions), the major part of these "costs of war" being represented by the 7,500 million kroner (£400 millions) drawn upon the National Bank by the Germans and spent by them in payment for Danish goods, labour services, etc. Moreover, the national product was diminished by the resort to less advanced methods of production caused by lack of coal and raw materials. On the average these two factors reduced the annual product available for internal consumption by about 20 per cent., and that in spite of the fact that in the later years of the occupation unemployment disappeared almost completely.

Broadly, our contributions to the German war effort were made in three different ways. In the *first* place more work was done, primarily by the absorption of the unemployed in production; otherwise, of course, the national product would have gone down still further. *Secondly*, we consumed less—towards the end of the occupation consumption *per capita* was some 20 per cent. lower than just before the War.

In these two ways about half of our contributions to Germany were made available. This burden is a thing of the past, since it cannot be claimed that it has impaired the health or efficiency of our population. Not so, however, in regard to the *third way*, viz., the remaining portion of the "war costs." That was raised by not adding to our productive equipment from year to year, as we used to do before the War.

We were not even able to keep up our productive apparatus ; stocks of all sorts of commodities were completely drained ; and merchant ships with a tonnage of 533,000, or about half of the total mercantile marine in 1938, were sent to the bottom of the sea. In all, it has been calculated that our total national wealth would probably have been some 6,000 million kroner (£315 millions) greater in 1945 (at the prices of that year) if there had been no war and no occupation. This means that our real national wealth was at least 5 per cent. smaller in 1945 than before the War, whereas it might have been some 8 per cent. greater. But, compared with the losses inflicted upon many other countries, Denmark has every reason to be grateful for the way in which she was able to weather the storm.

The "costs of war" were financed to a greater extent than in most other countries by means of credit expansion on the part of the bank of issue. Elsewhere every endeavour was made to cover as much as possible of the huge expenditures by current taxation or by floating long-term loans, in order to deprive the public of part of its increasing purchasing power. In Denmark, on the other hand, war expenditures were defrayed by the Germans by means of advances made by the National Bank under the guarantee of the Danish State. Apart from these advances, regarding the recovery of which no official doubt could be expressed, the public budgets showed no alarming deficits to be covered.

A considerable expansion of money incomes thus occurred at a time when opportunities for consumption and investment were curtailed. This obviously involved a strong inflationary pressure but by means of direct control measures we succeeded in keeping the rise of prices within limits. In consequence, only a minor part of the increasing volume of purchasing power was retained in circulation, the rest returning to the banks, whose cash holdings piled up in the form of deposits on current account with the National Bank. In the later years of the occupation slight tax increases and somewhat larger loan transactions were carried through with the explicit object of sterilizing this redundant currency. Yet it was calculated that on the eve of liberation the amount of "idle money" was still about 4,000 million kroner (£210 millions), or between four or five times the probable requirements of the public at the price level then obtaining. By an increase during the War in the legal minimum cash requirements against bank deposits about half

of this amount was "tied up," but this provision only prevented the banks from using these 2,000 million kroner for increased ending. It did not restrict the freedom of the depositors to spend their money.

The rate of saving, which before the War was a little under 10 per cent., rose to about 20 per cent. towards the end of the occupation. To the community as a whole, of course, these increased savings did not result in new productive investments; they had their counterpart in the increasing German debt to the National Bank and represented merely a fictitious capital. Individual citizens became richer, while our country as a whole became poorer.

THE EXCHANGE RATE PROBLEM

An important problem which presented itself immediately after the liberation was that of establishing exchange rates with the countries from which Denmark had been cut off during the occupation. On the basis of a comparison of the changes in wages and other costs in England and Denmark and with due regard to other factors, such as the probable future demand for Danish exports, several economists maintained that a sterling rate lower than that existing in the 'thirties, *i.e.* kroner 22.40 to the pound, would hardly be consistent in the long run with the maintenance of full employment and the re-establishment of a free foreign exchange market. It was feared, also, that once Denmark had joined the International Monetary Fund it might be difficult to obtain permission to increase the rate, if that should prove to be necessary in the future, and that this might place before us the unpleasant dilemma either of going through a painful deflation or of maintaining permanently a system of cumbersome exchange regulations. On the other hand, it was argued that for internal political reasons it might prove even more difficult to lower the foreign exchange rates later on, if the initial rates were fixed too high. Moreover, everybody realized the importance of keeping import prices down in order to prevent a further increase in wages.

Taking into account these latter considerations, and in view of the obviously enormous difficulties in the way of establishing at once a reasonable long-term equilibrium rate of exchange, the National Bank and the Government agreed

to let the rates remain for the time being at the level nominally maintained during the later years of the occupation, i.e. kroner 19.34 to the pound and kroner 4.79 to the dollar. This rate was, in fact, definitely established when Denmark later became a member of the Fund.

It is sometimes pointed out that so far the rates chosen have not been an obstacle to the maintenance of full employment. This argument is not, however, very relevant, for it seems fairly obvious that in a period of acute scarcity it matters little to the volume of employment whether the rates of exchange be somewhat lower or higher. But a time is pretty sure to come when prices and costs will again become decisive in international competition. On the other hand, it would be equally wrong, of course, to point to the huge deficits in the balance of current payments in the last two years as a proof that the rates chosen have been too low. No reasonable level of exchange rates could have equilibrated the balance of payments and made exchange restrictions and import control superfluous during the transitional period.

In Denmark, as in Great Britain, some apprehension was aroused when it was learned that, in the negotiations on the implementation of the Marshall Plan, the United States had claimed a certain influence on the future determination of our rates of exchange. More or less official statements seemed to imply not only that this was a question which a sovereign state should be left to decide for itself, but also that so far as Denmark was concerned it was a question that was already settled once and for all. Whether a depreciation of the krone can be avoided when—if ever—conditions become more "normal" remains to be seen, but to alter the rates now would hardly be well-advised. In the present economic situation a depreciation could scarcely stimulate our exports appreciably, and it would be sure to make the situation of the labour market more difficult and to increase the inflationary pressure. In Denmark, as in Great Britain, this inflationary pressure must be eliminated before it can be ascertained whether a devaluation is necessary or not. It is worth remembering, though, that the value of sterling in terms of dollars has already been reduced by about 20 per cent. compared with the level of the 'thirties, whereas in Denmark the dollar rate is the same as before the War and the sterling value of the Danish krone correspondingly higher than in the 'thirties.

MEASURES TO REDUCE PURCHASING POWER

Another group of problems demanding immediate consideration after the liberation was that connected with excessive purchasing power or idle money. It was to be expected, of course, that people would spend part of these accumulated liquid funds almost at once, thus directly increasing the upward pressure on prices. There was, moreover, another more indirect danger of inflation. The abnormal "liquidity preference" of the war years could not be expected to last for ever. The slump in the bond market generally feared at the end of the War did not occur, and in the course of time more and more idle money would presumably flow into the securities market and thus force down the long-term rate of interest. How quickly this would happen would depend on psychological factors, but eventually the fall might become very considerable. In that case the rate of interest would be deprived of its traditional function as regulator of economic activity, and to avoid an inflationary movement it might become necessary to resort to a very rigid direct control of investment.

As a consequence, we had the paradoxical situation that those preferring a totally planned economy were inclined to favour a *laissez-faire* policy with regard to the idle money, while those disliking such a policy, or at any rate not believing in its practicability, were forced to realize that part of the price to be paid for reverting to a free society (and avoiding the dangers of inflation) would consist in the painful elimination of excess purchasing power either through taxation or through large long-term public loans. The interest burden of this would also fall on the taxpayer.

Unfortunately, the policy actually followed in this field has not been very consistent. In the first period after the liberation, when many extraordinary public payments had to be made, the Government continued the credit expansion of the occupation years, though, it must be admitted, on a more moderate scale. German refugees, for example, of whom there were more than 200,000, cost the Government about a million kroner (almost £50,000) a day. The result was that in the financial year 1945-46 the State budget showed a deficit of some 600 million kroner (£31 millions). By increased taxation and certain reductions of expenditure this policy was gradually reversed in the course of 1946, since when the budgets of the State and the municipalities have shown a surplus of current

income over current expenditure. Part of these public savings have been used for financing public investments, of course, but it is estimated that there has also been a sterilization of money on this account amounting to over 200 million kroner (£10 millions) in 1946 and over 300 million kroner (£15 millions) in 1947. While these amounts have been drawn from the current flow of money income, considerably larger sterilization measures have been undertaken in the form of a transfer of capital from private to public account. In particular, the capital levy imposed in 1946 transferred about 800 million kroner (almost £41.5 millions) to the State in 1947, and it is estimated that a further sum of 80 million kroner will be paid in 1948. Finally, the deficit in the balance of current payments has served to reduce the volume of purchasing power, for importers have had to draw on their banking accounts when buying foreign exchange from the National Bank. In this way about 950 million kroner (£50 millions) were drawn in during 1946 and 1947.

In all, it appears that some 2,700 million kroner (£140 millions) were removed from circulation in 1946 and 1947. In order to judge the effectiveness of all these transactions their repercussions on the banking system must be taken into account. The increase in economic activity after the War, together with the sterilization measures and the adverse balance of payments, stimulated the demand for loans, and during 1946 and 1947 the banks increased their lending by about 1,450 million kroner (£75 millions). It thus appears that the banks have financed a substantial part of the sterilization measures and sales of foreign exchange with the result that the net effect of these transactions on the volume of money available to the public has been diminished. This development was made possible by a considerable reduction in the minimum cash requirements which took effect on April 1st, 1947, at the very moment when these requirements could have acted as an effective break on the expansion of credit.

So far, therefore, the influence of the above measures on the rate of interest has been largely psychological, through its effect on expectations regarding the Government's future interest policy. The long-term interest rate, which before the War was 4½ per cent., fell to just under 4 per cent. during the War, and almost to 3½ in the summer of 1947. In the latter half of that year a certain stringency was noticeable, but since the beginning of 1948 the rate has remained almost unaltered at about 4 per cent.

Towards the end of 1947 the National Bank issued a warning to private banks expressing grave concern about the continued increase in loans and discounts and urging them to restrict the grant of new credits which could only strengthen the inflationary movement already under way.

THE INFLATIONARY MOVEMENT

As a consequence of the lack of consistency in the measures taken to reduce purchasing power, the banks have had ample resources for financing an upward movement in the level of money incomes, and their liquidity is still far from exhausted.

During the occupation a small committee appointed by the Government had fixed wage rates in case of dispute between the parties, but soon after the liberation this procedure was repealed and the settlement of wages was left entirely to collective bargaining. Moreover, automatic adjustment of wage rates following changes in the cost-of-living index was reintroduced in the spring of 1946. Thus the scene was set for the gradual rise of wages and other money incomes which we have been witnessing since the liberation.

The increase in the world prices of our imports has played its rôle in setting the price-wage spiral in motion, and it seems doubtful whether sufficient attention has been paid to the close connection which is likely to exist under a system of bilateral trade agreements between the prices obtained by our exporters and the prices which our importers have had to pay. Both groups of prices may have been raised thereby to a higher level than was strictly necessary. This may, of course, benefit exporters, but not the country as a whole.

The bad harvest of 1947 was a disaster since it led to very marked increases in agricultural prices in order to compensate farmers for diminished output. Finally, the profits of entrepreneurs have also been increasing in many branches of business in spite of all efforts of the price controlling authorities.

Subsidies have been used to a considerable extent. For the financial year 1946-47 they have been estimated at 300 million kroner (over £15 millions). Their primary object has been to prevent the rising levels of incomes and costs from being fully reflected in the price index according to which wages are regulated; and though in this way the wages spiral has been somewhat halted, this policy has had, as will appear on a later page, other undesirable effects.

To a certain extent our "open inflation" is reflected in the wholesale and retail price indices. The former rose about 100 per cent. during the War and a further 30 per cent. to June, 1948, while the latter rose almost 60 per cent. during the War, since when it has gone up by another 6 per cent. The level of money wages, on the other hand, which had risen 50-60 per cent. during the War, is now 90-100 per cent. higher than in 1939, and the trend of money incomes as a whole has been somewhat similar. This suggests that there is also a considerable "repressed inflation" in Denmark.

Apart from the social injustice which it usually involves, it is obvious that further inflation entails two major dangers: it makes it more difficult to maintain the competitive power of Danish production at the present rates of exchange, and it endangers the realization of our reconstruction programme.

THE RECONSTRUCTION PROBLEM

In accordance with the estimate already quoted above regarding the sub-normal investment activity of the occupation period, the Danish reconstruction programme has generally been taken to aim at making, within a reasonable period, extraordinary investments amounting to at least 6,000 million kroner (£315 millions). To realize the programme it is not enough, of course, to stop at this total figure—concrete plans must be outlined for different branches of production. To formulate a co-ordinated investment programme of this sort is obviously a very difficult matter, since it involves an attempt to adapt the Danish productive structure to world economic conditions likely to obtain in the future.

By a gradual increase the gross national product reached its pre-war level in 1947, but as the working population has grown by 5 per cent. and unemployment has been almost completely eliminated, productivity must be still something like 10 per cent. lower than before the War. This deplorable result is due to various factors.

In the first place Denmark has been forced against her will in the direction of autarchy. In particular, the world scarcity of grain and oilcakes has made it impossible for us to import enough of these feeding stuffs to utilize our productive apparatus in agriculture to full capacity. As a consequence, animal production has been reduced to 75 per cent. of its pre-war volume, and though domestic rations have been cut

and new rationing introduced, the quantities exported have been reduced to an even greater extent. Difficulties of getting imported fuel have also forced us to maintain an expensive production of peat, etc. In the second place, the barter terms of trade until quite recently have been very unfavourable to Denmark. To give a striking example: before the War one pound of butter would buy 95 pounds of coal or 17 pounds of oilcake; in the first half of 1947 the corresponding figures were 56 and 10. A sudden improvement occurred when the trade agreement with Great Britain expired and the export of butter and bacon to that country was discontinued on October 1st, 1947. At that moment considerably higher prices were being obtained in other markets, but looking a little further ahead it was a matter of doubt how large were the quantities these other countries could take. There was general satisfaction in Denmark, therefore, when a new trade agreement was concluded with Great Britain early in 1948.

Domestic factors have also contributed to the lowering of productivity. The productive apparatus has been in need of repair and renewals; the unemployed who had entered production during the War were less efficient than those previously employed; more persons than before the War were employed outside the productive process in military service, public administration, etc.; while the reduced risk of unemployment may also have had a certain adverse effect on efficiency. Finally, the various forms of public planning and regulation have influenced the situation. Allocation of scarce raw materials to producers on the basis of pre-war production has prevented the concentration of production on the most efficient plants; and, similarly, the methods of calculation used by the price controlling authorities have diminished the interest of producers in reducing costs as much as possible.

In 1947 consumption per capita reached the pre-war level, according to the figures of the National Budget, but as our population is now 10 per cent. larger, the total volume of consumption has been correspondingly greater than before the War, whereas the total national product, as we have seen, was only about the same. Less has consequently been left over for investment. In 1945 net investment was considerably smaller than before the War. In the following year it was approximately at the pre-war level but, at the same time, the balance of current payments showed an almost equally large deficit. That meant that practically all net investment of that

year was financed by means of foreign credits, and that the whole of the domestic net product was consumed. In other words, the rate of saving was in the neighbourhood of zero. In 1947 there was a 15 per cent. fall in net investment but a somewhat greater reduction in the balance-of-payment deficit, the rate of domestic savings consequently rising to 3—4 per cent.

It thus appears that reconstruction in the sense of investment materially above the normal level has not started yet. The explanation of this development of consumption and investment lies close at hand. In Denmark, as elsewhere, there was a large pent-up demand and a general desire to make up for the privations of the occupation period as soon as possible. The gradual fall in the value of money has also contributed to increase this propensity to consume, and in this respect subsidies and direct price control have made it possible for large groups of the population to realize their wishes.

As already indicated the cost-of-living index has risen considerably less than the level of money wages. That means that after buying the necessities entering into the cost-of-living index budget a workman has had a not inconsiderable amount of money left over, most of which has been spent on goods and services of secondary importance. This has made catering for these less urgent needs highly profitable, the more so because it has proved difficult to control prices efficiently in these fields. Consequently, they have been able to attract labour by offering wages above the rates established in collective agreements. In short, this whole policy has led to a redistribution of real income which, whatever its merits in other respects, has meant larger consumption and smaller savings. It has tended to increase the inflationary pressure and to divert productive resources from export production and investment activity towards supplying relatively unimportant consumption goods and services.

CAN RECONSTRUCTION BE PROMOTED ?

As a reserve army of unemployed no longer exists, and a general lengthening of the working day seems politically impossible, an increase in the total national product must be brought about in the main by raising productivity. To a certain extent it should be possible to stimulate rationalization by reforming and gradually abolishing existing regulations and

controls with the constant aim of increasing the entrepreneur's interest in economies. But in a country like Denmark progress in this direction is also to a large degree dependent upon an initial import of capital goods. Consequently, we run the risk that so long as we do not get the necessary raw materials and machinery we are forced to continue with uneconomic methods of production, thereby being prevented from increasing exports sufficiently to buy the equipment required for raising productivity. Even at best rationalization of production is a time-requiring process.

It is, however, extremely difficult to curtail consumption, though certain steps have been taken to stimulate voluntary savings. For example, the limit from which the general property tax starts has been raised from 10,000 to 20,000 kroner (from £520 to £1,040). Further, in the summer of 1948 a 100 million kroner lottery loan, consisting of small 50 kroner bonds was issued, and another of the same size may follow in the autumn. It is not unlikely that this type of bond may appeal to people who otherwise would have consumed their whole income, but some of the purchases will, of course, be made with money that would have been saved in any case. Direct curtailment of consumption through rationing and allocation schemes has also been applied to an increasing degree in the last two years, partly to cut down imports, partly to set free more agricultural products for export, but so far these measures have not been very effective in reducing total consumption. For the most part they have served to strengthen the tendency to shift consumption towards goods and services of secondary importance.

Much discussion has taken place in Denmark, as elsewhere, on the relative merits of interest rate policy and financial policy as means for promoting reconstruction. Those opposed to an increase in the interest rate have contended that a politically feasible increase of say one-half or one per cent. would be unlikely to have much direct influence on the volume of saving. It is argued that consumption would be cut down only indirectly by reducing investment, and that this would be self-contradictory, since it is the very essence of reconstruction that investment should be increased. Against this one may point out, however, that without reducing the actual volume of investment, a certain rise in the rate of interest might bring about a better equilibrium between investment demands and available resources, thus reducing the inflationary pressure now existing ; and that if in this way confidence in the value

of money were re-established, that might exercise a favourable effect on the willingness to save. On the other hand, it should be noted that a restriction of consumption through higher taxes is made exceedingly difficult in Denmark by the fact that the price index according to which wages and salaries are adjusted registers increases in both direct and indirect taxation. Thus large income groups are automatically compensated for the increased taxation with the result that the price-wage spiral is set in motion. It is doubtful whether an elimination of tax increases from the cost-of-living calculation is politically feasible.

According to the National Budget for 1948 total production should be of about the same size as in 1947, while it is planned to reduce total consumption by 4 per cent. Without resort to new foreign loans this would bring investment and savings back to about the pre-war level, and thus put an end to the "negative reconstruction" of the preceding years—but nothing more.

But since the National Budget was drawn up, the European Recovery Programme has presented new possibilities for realizing the reconstruction programme. Under the Marshall Plan Denmark may expect to receive loans and grants amounting to 130 million dollars or 625 million kroner for the period ending April 1st, 1949. This will obviously relieve the acute dollar shortage and make possible the import of many of the capital goods necessary to break the vicious circle referred to above. Production and exports may thus gradually be expanded, and, moreover, the sale of the Marshall dollars to importers will serve to draw in money from circulation. Finally, Denmark stands to gain from the revival of international trade which should accompany the recovery of production in all the other countries receiving Marshall aid.

It should, of course, be easier to prevent consumption from rising than to curtail it once it has been increased, but even with foreign aid and gradually rising production the reconstruction programme will not be realized unless the tendencies towards inflation and expanding consumption are successfully combated.

To the extent that Marshall aid takes the form of grants additional investment can be made without any reduction of either present or future Danish consumption. When given in the form of loans the aid, in effect, postpones the burdens of reconstruction until a period when they may be more easily

borne, because the loans will have helped to increase productivity. How easy it will be to bear these burdens remains to be seen. Denmark has already a dollar debt amounting to 850 million kroner (\$180 millions) and in Denmark, as in Great Britain, fears have been expressed that the dollar shortage, though less acute than at present, will be of very long duration.

* * *

An attempt has been made above not only to state the main facts concerning Denmark's present economic situation, but also to give an outline of our discussions of the problems to which this situation has given rise. To the British reader much of this may seem tedious repetition of familiar matter. Yet there may perhaps be one point or another where our grappling with problems we have in common may suggest ideas of value also to our friends on the other side of the North Sea.

CARL IVERSEN.

Copenhagen,

August, 1948.

The Problems of the Under-Developed World

By Sir Theodore Gregory, D.Sc.

THE one general feature which is true of the "under-developed world" as a whole is a low *per capita* income. In all other respects there are differences: of soil and climate, natural resources, political affiliation, population pressure, of religion and of social structure. Generalization is difficult if accuracy in detail is to be preserved. But if one thinks of regions such as the Balkans and the Middle East, the greater part of the Far East and large parts of Latin-America (including Mexico) one is aware of a certain pattern of life. There may be a fringe of plantation-cultivation and some "large scale" industrial and mining enterprise, but there is also a mass of peasant cultivators (whether or not they own the soil is politically important but secondary from the economic point of view) and an indigenous industry organized not on the basis of power-driven machinery, but on the basis of the human hand. Finance is provided by the "money lender" not by a commercial bank; life flows in a traditional pattern. Birth rates are high and so is mortality, productivity *per capita* is low and the struggle for existence is hard. Whether due to paucity of resources, their inadequate utilization or rapid growth of population in absolute terms, or all these in combination, the general result is the same: low *per capita* income. And that implies in its turn, low nutritional standards, the prevalence of disease, and small power of resistance, physical and economic, against the risks of civil war, flood, famine and pestilence. So is life as it is lived within half-an-hour's drive from the centre of any Balkan capital, or of Cairo, of Bombay, Calcutta, or the seaports of the Caribbean or the airports of Central America.

I

SOME COMMON MISCONCEPTIONS

It is a familiar pattern, and the danger is of oversimplification. There is the temptation to suppose that because the technical way of life in many parts of the world is traditional,

therefore the populations who live that life are simple, unsophisticated souls, unaffected by the economic calculus, unaware of the pull of the more or the less, the greater or the smaller gain. Nothing could well be more mistaken. I venture to think that anyone who has ever been concerned with the economic aspects of administration in any part of the under-developed world will agree with me that it is not in *those* parts of the world, but in the more highly organized, more advanced, more "capitalistic" West, that self-interest and the profit motive are tempered by considerations of the public good, and that these latter play practically no part, for instance, in the economic life of the East and Middle East; that "economic laws" work themselves out in such areas with much less friction, or in other words, with much more determinable consequences, than they do in the West. To approach the problems of reconstruction and development in such areas with preconceived notions of the relative innocence of traditionally conditioned human nature is to court disaster from the beginning. It is equally a misconception of the situation to suppose that these under-developed societies are static in the sense that they actively resist changes in the patterns of consumption or are voluntarily immobile in the physical sense. Neither of these preconceptions fit the facts of the case. It is difficult to alter dietary standards: to get rice-eaters to switch to wheat, for instance, or to get peasant populations to welcome strange foods out of cans (whence the universal prevalence in the bazaars of half the world of U.N.R.R.A. supplies of the highest quality). But the villager will easily take to hurricane lamps, pocket torches, rubber shoes, and other commodities, the utility of which to him is evident, and he is only too easily persuaded of the value of patent medicines. Wherever roads permit of even the crudest form of mechanical transport, the motor bus is crowded to suffocation; the cheap bicycle has made life easier for hundreds of thousands of villagers. The picture which Kipling drew in "Kim" of the life on the Grand Trunk Road may be romantically coloured, but immobility is no attribute of the under-developed world. The village represents a haven of refuge, to which in bad times the expatriate can return—a point of great significance in countries with no poor law and no unemployment insurance—but it does not follow that the villager desires either poverty for its own sake (the

voluntary poverty and ascetism of the devout are another matter altogether) nor an unalterable pattern of life, nor fixity of abode.

Lastly, there is a tendency to overlook the fact that there is an inherent differentiation and multiplication of occupation, even in these under-developed countries. Even the village is, in detail, a highly differentiated structure of occupations. The movement of produce from the fields to the towns and the seaports generates groups of traders, merchants and transport agencies ; there must be an administrative class and religious, legal and military functionaries ; in the cities there are merchants and bankers as well as craftsmen and labourers. The handicraft textile industry may be large, both in the town and country, as it is in Southern India to this day. Thus the problem of transition is, in reality, a complicated one. It does not mean merely superimposing power-equipped industry upon agriculture ; the advent of the machine means that there is loss as well as gain, for the cheaper machine product may play havoc with the markets of the traditional textile and other industries, and make transition more difficult. It would be fortunate if facts were otherwise, because the social problems of the transition are greatly aggravated thereby.

II

INDUSTRIALIZATION AND PRIMARY PRODUCTION

A good many years ago, in one of the publications of the Royal Institute of International Affairs, I committed myself to the proposition (I have not the opportunity of checking the exact words I then used) that industrialization was the only available method of dealing with the appalling standards of life in the East. Whilst I can still see no reason to change my mind as to the fundamentals of the problem, I am now conscious of the fact that this statement of mine was a gross over-simplification of the issues involved, and that there is much to be added in the way of qualification and quantification.

An intensification of industrial life is, in general, impossible without an intensification of agricultural production, and that for two reasons. In the first place, industrialization involves an increase in the demand for raw materials as well as an increase in the demand for fuel and labour. Even with a stable population, an increase in the consumption, e.g. of piece goods, requires an increase in the output of cotton ; increased con-

sumption of foodstuffs implies an increase in the yield of rice and wheat, of groundnuts and so on. Additional milk consumption involves better and more cattle, and therefore increased fodder crops. Moreover, it must be borne in mind that over a large part, if not the whole of the area under discussion, population is increasing rapidly : in India, China, the Middle East and Indonesia *very* rapidly. A rise in consumption standards is, therefore, only in part a question of increasing industrial production. It is true that increased agricultural production in its turn calls for more industrialization, for more road-making machinery, irrigation plant, ploughs and fertilizers, insecticides and the like. The growth of industrial and of agricultural production are, therefore, complementary.

But there is a second reason why agricultural and industrial expansion must proceed *pari passu*. The products of the new or expanded consumption goods industries can only be sold to the cultivator, because he is in the majority. When the question of industrialization is discussed in the West, there is, usually, an implicit major assumption, namely, that there is already in existence an urban majority. It is certainly the case that the greater the administrative apparatus and the greater the ratio of the capital goods producing industries to the consumption goods producing industries, the greater the degree to which industrialization will produce its own market for consumption goods, extraneous to the agricultural population ; the dog lives, as it were, by eating its own tail. But on any realistic view of a large part of the world, no such simple solution of the problem is possible. The majority of the population is, in fact, agricultural and it must be provided with the necessary incentive to produce the increased output without which increased industrialization is impossible. Given a sufficiently terroristic organization of society, it may be possible to keep the "terms of trade" favourable to the urban sector of the economy, which is equivalent to saying that the standard of life in the urban sector will rise faster than it does in the agricultural sector, or, alternatively, that a smaller proportion of the total industrial effort need be devoted to the production of the "machines which make the machines which produce the consumer goods". This in fact appears to be the Russian solution, and it has a strange resemblance to what one is taught to regard as discredited Victorianism : an increas-

ing cake which can never be cut even when the children are really hungry. But if the object of industrialization is really to raise the standard of life, and not military power, if, in other words, consumption goods industries are really to be allowed to exist, then over a large part of the under-developed world, the market must be the agriculturalist, because, to repeat, he and his are in the majority.

Given the high prestige value of industrialization as implying military power, and emancipation from the influence of the Western capitalistic world, it is, perhaps, not surprising that the difficulties as well as the possibilities of raising the productivity of the cultivator have been unduly neglected, both inside and outside the area. It is only recently that the magnitude of the problem is being realized. Expert opinion runs very far apart on such major issues as the margin of cultivable land still available, the possibilities of irrigation, the degree to which traditional methods and units of cultivation should be modified and the quantitative results which are likely to follow from the use of improved seeds. Above all, it is beginning to be realized that the modernization of agriculture is bound up with questions of land tenure which have social and political implications of the most profound kind.

To be in the fashion to-day it is necessary to have a Plan, and certainly the "Have-not" areas of the world do not lack them—official and unofficial, annual, quinquennial or decennial, provisional or definitive, constructed or financed by external sympathizers or ardent local patriots. They constitute, in themselves, a considerable literature, and it is expedient to say a word about them as a totality.

The characteristic feature of all such plans is that they express the problems of modernization and adaptation in quantitative terms. This has its advantages and its defects. The main advantage of the quantitative approach is that it emphasizes, to anyone with statistical imagination, what enormous magnitudes are involved when large quantities are multiplied by small ones. I take one simple illustration : in 1943 it was pointed out by the Food Grains Policy Committee in India that to add one ounce per day *per capita* to the diet of India, with the then estimated population of some 400 millions, would require an addition of 4 million tons per annum to the food crops of India. To-day the population of India is

probably some 20 to 30 millions more, and the problem of maintaining even existing nutritional standards correspondingly greater. And what is true of food is true of housing, of clothing supply, of elementary transport facilities and so on. It is altogether advantageous that the stark, naked facts should be brought out in this way. If there is to be any positive improvement by all means let everyone know what that improvement implies in terms of absolute physical supply.

III

"PLANS" INTER-DEPENDENT

The main disadvantage of the quantitative approach is that it encourages a far too mechanistic approach to the issues involved ; in a word, it leads to the "penny-in-the-slot" attitude towards life and its myriad manifestations. So many of these plans assume that nature will always be bountiful, and that the compound interest element in investment will work with automatic certainty ; that famine, war, disaster, the defective working of the administrative mechanism and the sway of political faction, the mulish resistance of the one and the selfish resistance of the other, are irrelevant factors of the second order of importance. Assumptions of this kind are dangerous enough even when applied to the highly integrated economics of the Western World ; when they are applied to China, India, the Middle East, or West Africa, or the obscurities of the Amazon Valley, they are likely to lead to that state of disillusionment which is a prelude to disaster. The value of a plan depends upon the knowledge, the experience, the human qualities and the ability to take a realistic approach, of the groups of planners involved. But if a large number of independent areas are all planning simultaneously, the difficulties of carrying them all out successfully depend, not only upon what each plan assumes as to the internal and external factors necessary for its success, but upon the consequence of all the plans taken together. If country A. assumes, for instance, that it can expand the area under commercial crops for the expansion of its industry, relying upon being able to export manufactures to countries B. and C. in return for additional supplies of foodstuffs, the result can only be disastrous if, at the same time, countries B. and C. are making precisely similar assumptions about Country A. It is clear that some co-ordination of plans is called for, but it is foolish

to underestimate the immense practical difficulties which lie in the way of such co-ordination. Who will give way to whom when there is conflict? The increase in the number of independent states arising out of the political developments of the Second World War may have its political and psychological advantages; it certainly does not make the transition to more intensified all-round production easier, since it associates political feelings with issues which are, intrinsically, sufficiently intractable.

IV

BURDEN OF POLITICAL INSECURITY

In considering the problem of the adaptation of countries to a more intensive stage of production, agricultural, industrial or both, I think it has been the habit in the West to take much too much for granted as regards the environmental conditions which alone will make the transition easy.

First, just because these countries are poor countries, reckoned in terms of wealth *per capita*, their defence against external aggression presents great financial difficulties. Hitherto, for instance, the countries of S.E. Asia, as parts of the Colonial Empires of the West, have had defence budgets which assumed a measure of assistance from the West in the case of hostilities. Independence or quasi-independence will carry with it a heavier burden of charges or, alternatively, will increase the risks of aggression and therefore heighten the sense of insecurity. It is possible that some of these countries, such as India, have already developed industrially to the stage when they can supply their own military needs, but even in such a case it is an economic burden which must reduce the resources available for reconstruction. It is true that the armaments industries, from the manufacture of steel to the production of the finished instruments of war, imply industrialization and a high degree of various kinds of skills, which could, if the risk of aggression were reduced, be applied to raising the standard of life. It is undoubtedly true, to take the most spectacular case of all, that the standard of life in Russia could be greatly raised at once if Russian military preparedness were less. It is also true that if the U.S.S.R. reduced its armaments the risk of war would decline and the insecurity of all would diminish. But it can hardly be disputed, if a realistic picture of the problem is to be painted, that a

rapid rise in the under-developed world's standard of living is much more difficult to-day than it was even a decade or more ago, because of the cost of meeting possible aggression from without. Moreover, in countries in which, for ages past, insecurity has led to the habit of hoarding, the risk of aggression is a powerful deterrent to investment.

Secondly, the internal conditions of many of these countries are so tense as to make an orderly forward movement very difficult, and the area of insecurity is widening, at this moment of writing, at an appalling rate. For obvious reasons, in Great Britain, at present, one thinks primarily of conditions in Burma, Malaya, and Palestine. But the classical case is surely China. It is now getting on for half a century since the Manchu Dynasty was overturned and the Republican era was inaugurated. Even making every allowance possible for the effects of Japanese intervention (though that, after all, only goes to confirm the necessity for large expenditure on defence against external aggression) it cannot be gainsaid that throughout practically the whole of that time internal conditions have been such as to frustrate economic progress, in spite of all the genuine desire for improvement and the public spirit of millions of Chinese patriots. It is easy to dismiss the effects of the outburst of racial animosities which followed the grant of Dominion status to India and Pakistan by saying that these outbursts were "confined to a small part of the country". But, quite apart from the frightful suffering which has been imposed upon millions of innocent individuals, the direct loss of life and of property and the forcible movement of millions to and from the Dominions have profoundly affected agricultural production, the working of the indispensable irrigation system, the railways, the administration and the future of industrial enterprise in Pakistan. One may take what view one will of the relative merits of the Arab and Zionist claims and counter-claims in the political field: the fact remains that economic progress is not likely so long as these internal strains and their external repercussions persist. Thus, over a large part of the under-developed world, the physical inheritance of the past has been destroyed to a greater or smaller extent, current production is diminished by this and by the prevailing state of unrest, and any hope of substantial improvement is correspondingly postponed.

It would be foolish to dismiss the long-run significance

of considerations of this kind, or to argue that unrest over a large part of the area is the result simply of the exploitation by extremist parties of the economic upheaval and the distress caused by the War. Even given a cessation of propaganda tacitly or openly encouraged by Communist influences, the internal structure of many of these countries, it must be frankly stated, is *inherently* unstable. Many of these countries, to use a fashionable phrase, are "plural" societies, in which economic cleavages follow racial lines. All, or nearly all, political groups in Asia, and to some extent in South America and Africa, have stimulated feeling against white domination. This feeling has affected all classes of the population—students, workers, administrators, journalists and, not least of all, the nascent industrial and commercial groups anxious to enter into the heritage of Western Capitalism. The disappearance of European or American administrators and business men will not, however, put an end to these manifestations of ill will. Racial tension was known in India even before the days of the Raj ; the position of Indians in Burma is by no means ideal, nor the position of the Chinese there or in many other parts of the East.

The mischievous consequences which result from the uneasy "bedfellowship" of races in plural societies in a state of tension are far wider than generally imagined. It is not merely a question of race-riots, the destruction of property and the check to investment which follows from insecurity. It is astonishing to realize how limited the groups sometimes are which carry the burden of innovation and improvement. Thus, in India, the Marwari and Parsee communities have played a rôle in economic progress altogether disproportionate to their size ; the same might be said of the Southern Indian community of Chetties in their traditional rôle of bankers in Burma and Indo-China. The elimination of such groups, or conscious discrimination against them, may mean a setback which may be very serious, even though it cannot be stated in quantitative terms. Moreover, no one can do good work under conditions of perpetual insecurity. What a recent writer in the *Manchester Guardian Weekly* (issue of July 8th, 1948) has to say of Czechoslovakia applies with equal, if not greater force, to many other communities : "The plan . . . requires many thousands of experienced and self-confident managers at all levels of production, and many thousands have been removed

or relegated by the purge and in the process of nationalization. This process has not yet ended, so that those who are still in responsible jobs find it impossible to work in peace". If only some Western armchair planners were as realistic as our instructed journalists!

V

THE PROBLEM OF ADMINISTRATION

It is not the least tragic aspect of totalitarianism that it cannot afford, or at any rate behaves as if it could not afford, to tell the truth. There does not exist, so far as my knowledge extends, an unbiased, truthful, and systematic history of the administrative problems, the real failures (and their causes) and the real achievements (and their causes) of the various administrations of the U.S.S.R., presented as a matter of the greatest possible scientific, technical and political importance to the world as a whole, and compiled by those really in a position to know and to weigh all the facts. If only civil servants and administrators in the West could sit down from time to time with their opposite numbers from behind the Iron Curtain, and really ask the questions which have to be asked, and get answers which are the fruit of first-hand experience gained on the spot by individuals not afraid to tell the truth! As it is, a large part of the world hopes to solve its problems by the application of the idea of planning without the slightest real record of what planning has meant in the country which has practised it longest.

For the third great difficulty which must be faced in the transition from the peasant state to the more closely integrated economic community of the future is that of Administration, taking that word in its widest possible sense. How delightful a task it is, to sit down and estimate, quantitatively, that if a population of x millions is to be adequately looked after from the public health standpoint, there will need to be so many thousand hospitals, with their beds, operating theatres, supplies, doctors, dentists and nurses; so many village dispensaries, so many mobile units, so much D.D.T. and so many toothbrushes. Similarly, if the same population is to be adequately educated, there will need to be so many primary and secondary schools, so many technical colleges, and universities, so many professors of this and that, so many square feet of lumber for desks and so many thousands of tons of paper for text books, so many

printing presses and so many "experts" to prepare the text books. So one may go down the list of requirements and when the various figures are tabulated and the final tables printed in abbreviated pamphlet form, with various coloured charts and diagrams to aid comprehension, no doubt a good time is had by all. This is planning and reconstruction à la Potemkin, and whilst it may satisfy "all of the people some of the time" it is not a solution of the real difficulties.

In fact, the task of adapting and modernizing administrative services is an immensely intractable one. It is not only that one must "train the teachers who will train the teachers," train the engineers and the chemists and the agricultural experts and the other technicians, the doctors and the dentists and the nurses and the economists and statisticians, all of which involves a corresponding investment in bricks and mortar and equipment, and, more particularly, an investment in time. The annual cost of the social services and the training schemes and the experimental stations has also to be taken into account, and that cost may be too crippling to be borne by budgets already burdened with other expenses. These are, in a sense, the obvious difficulties. There are others, perhaps of even greater significance, which are not quite so apparent. In many parts of the world a long tradition, partly social, partly religious, has created a prejudice against any appearance of participation in manual work or what can be construed as such—even this country is not entirely free of prejudices of this kind. Further, in plural societies there is always the danger that those best fitted by family tradition and natural aptitude for administration or technical training may be deliberately excluded from participation. It is true, of course, that inherited prejudices may have hitherto prevented recruitment of suitable individuals and that quite unsuspected faculties may still lie dormant. When the Royal Indian Navy was built up, for instance, a large proportion of suitable material was found among Punjabi Mussulmans who had never even seen the sea. But in countries with no technical traditions and with a limited middle class, the expansion of technical and administrative cadres is by no means an easy matter. In industry wasteful use of machinery and resources will add to the net burden of the transition and it is folly to imagine that the process can be a very rapid one, if anything approximating to a reasonable standard of efficiency is to be attained.

It is true that, in principle, the building up of cadres could be greatly assisted by the training of students in the Western hemisphere and by the use of foreign "experts." But, in view of the domestic situation of Western countries, the number of places available at Universities and technical schools is extremely limited. Moreover, so far as industry is concerned, the literary and intellectual groups who tend to be most clamant for selection are not necessarily the most suitable material. As regards the employment of foreign "experts," the fact must be frankly faced that their usefulness depends not mainly on their own personal qualities, though these are of course very important—friendliness and imagination are non-economic but highly desirable qualifications—but on the degree of independence and initiative and authority which they are *actually* given. Nothing can well be more heart-breaking than the position of an expert who is interfered with and frustrated in every direction because of local jealousies or because of the tendering of unpopular advice or because of the opposition of some important personage whose pet schemes are being critically examined. It is not difficult to draw up schemes for an International Tennessee Valley Authority to do this or that in a particular region. In fact, apart from the very acute shortage of suitable individuals, the real problem is the extent to which, given the presence of ultra-nationalistic sentiment, such international organizations would be given the opportunity to attain the objectives for which they were created. No-one with any experience of the situation would disagree with the statement that it is much easier for such organizations to function in the sphere of medical and public health activities than in the economic field. But these latter, when all is said and done, happen to be the permanently important ones.

It has been my fortune to have seen, during and after the War, a good deal of that part of the world which is relevant to the present discussion. Two issues stand out. In the first place, the paramount problem is the establishment of what may be called impersonal standards of behaviour on the part of the authorities with whom the ultimate responsibility will rest. The pull of family, of friendship, of community, of party is immense. The ante-rooms of Ministers and of leading civil servants are not in fact filled with purely disinterested individuals, only desirous of the public good. However

scientific the plan, a considerable margin of debate exists, and the debate is not always conducted on lines which would be considered reputable in the Common Rooms of British Universities. In the second place, one has to ask oneself: what are going to be the true incentives which will sustain the vast administrative, technical and industrial effort that will be required, not for a few months or a few years but for decades? One has to picture to oneself not some higher official, in an air-conditioned room at Headquarters, supplied with glittering car and secretaries and all the attractions of a modernized urban centre (including the due measure of adulation and "write-up" in the local or even the world press), but the thousands of humbler folk in obscure provincial centres and villages, battling with local indifference at best and local opposition at worst, with the heat and the flies and the pressure "to do something for somebody" on telephonic instructions from some all-powerful person at the mysterious centre, and who are expected to produce the results.

There is no need to be cynical or to assume that there is not in all parts of the area under discussion a large number of individuals endowed with youth and enthusiasm and public spirit who are willing to put up with great hardships and discomforts in order to get things done. The question is whether the number is adequate and whether the same individual, even starting with high enthusiasm, will be able to sustain what may be long years of arduous effort, without any very tangible or visible reward. Over a large part of the world, as things actually are, administrative services are centralized, promotion is a matter of political pull and nepotism, the small official is underpaid and under constant temptation to accept bribes as a means of improving his family's income. It is folly to suppose that these evils will disappear overnight or that in the working out of plans their existence can be overlooked. To judge by the bits and scraps of news that come across the Iron Curtain from time to time, these evils do not appear to have vanished in Russia, even if the evidence tendered at the various sabotage trials be disregarded as being hopelessly tainted by propagandistic motives.

VI

FINANCE OF INDUSTRIALIZATION

The major question when the modernization of the administrative machine is under discussion—issues of training and recruitment apart—is how the expanded administrative apparatus is to be financed. That is a question of how, if there is an enlarged national income, the necessary adjustments can be made in the budget. The presupposition is that there will be an increase in the national income: the major issue here is the provision of the necessary capital, and it necessarily dominates all the other technical issues.

Up to a point, but only up to a point, there is no real cleavage of national advantage between the investment of resources in the building up of the "public capital" of roads, offices, school buildings, hospitals and the like, or in expenditure in intangibles such as doctors and trained personnel of all sorts. It is, in fact, impossible to achieve a higher level of income through intensified economic activity in the narrower sense without such investment in the non-economic sector of society. Failure to recognize this makes nonsense of much of the Gladstonian approach to the problems of public finance: allowing "money to fructify in the pockets of the people" is meaningless if the absence of education, public health and training facilities so lowers productivity as to reduce gross national income. On the other hand, it is also true that at any moment of time there is a real conflict between ends which are immediately productive of non-economic benefit in the narrow sense, and long-run economic gains which do not yield any immediate benefit. "*Guns versus butter*" was the classical pre-war case, but the Russian decision to build up capital equipment at the expense of maintaining what is obviously a very low standard of housing represents a choice which will have to be made all over the under-developed world.

So far as capital supply is concerned, it is important to separate the true sources of capital supply from the unreal ones. Taking the under-developed areas of the world as a whole, "shift-and-shift-about" operations within those areas leave the problem of real capital supply wholly unaffected. The Arabs of the Hadramaut possess large investments in Indonesia; the Chetties of Southern India probably much greater ones in Burma, Malaya and Indo-China; the Chinese

everywhere in South East Asia and the Pacific ; the Greeks own large properties in Egypt and so on. But the transference of the interests and profits of such investments, though it may increase the sum of possible investment in the recipient areas, to that extent reduces the possibility of increasing the sum available for reinvestment in the area whence the sums are drawn.

Much emphasis has been placed on the extent to which, over a large part of the under-developed world, current income is not reinvested, but hoarded in the shape of jewels or the precious metals. Dishoarding, unless it means the sale of such goods outside the area, will not add in any way to the available financial resources : for what is dishoarded by one person will, *ex hypothesi*, be acquired by another. If gold is sold to the U.S.A., capital goods may, of course, be acquired by means of it, though under present conditions the effect of gold sales may simply be dissipated in higher prices for capital goods.

The expropriation of foreign-owned, by which is generally meant European-owned, property does not mean any direct net addition to the capital supply. It is true that, if the remittance of profits, dividends, or interest ceases, the foreign exchange so saved can be diverted to the acquisition of fresh capital goods, though if compensation is paid on a reasonable scale the net addition is likely to be small.

It is sometimes suggested, e.g. in the Bombay Plan that a measure of inflation is justified if it assists in building up the capital supply of a developing country. But inflation can only effect its purpose, which in this case is the transfer of resources from consumption purposes to capital production purposes, by reducing the standard of living or preventing it from rising as fast as it would otherwise have risen. Moreover, its indirect effects are likely to be serious. It strengthens the incentive to hoard jewels or the precious metals, which constitute the natural hedge against inflation, greatly aggravates the problems of long-term borrowing on fixed terms of interest, increases labour unrest and—in the long run—makes orderly budgeting more difficult.

During the War and immediately after it, high hopes were entertained that the problem of capital supply could be greatly alleviated by the utilization of the sterling balances accumulated during the War. The fact that these balances were built

up by the blood, toil and sacrifice of the creditor nations, though highly relevant from the political point of view, is irrelevant from the technical one. Whether purchases of capital goods are financed by fresh loans, by grants-in-aid, or by drawing down existing balances, the real problem remains the same: the strain to which the capital goods producing industries are exposed at the present time because of war-destruction, reconstruction, and development. It is the shortage of capital goods—involved postponement of plans intrinsically desirable—which holds up development and the growth of the national income in all parts of the world.

Capital formation necessarily involves present sacrifice for future gains. All experience—not excluding that of the United Kingdom—proves how difficult it is to reconcile the aims of the “welfare state” with the aim of maximizing capital accumulation. If in the under-developed world the form of Government is to be democratic, the reconciliation of these conflicting objectives will be very difficult, since these countries do not enjoy the heritage of capital equipment without which the position of the United Kingdom would be even more dangerous than it is already.

There can be no question, however, that from the economic point of view the provision of capital from outside, that is from the West, immensely eases the problems of the under-developed areas. The difficulties—apart from the existing strain on the capital goods industries everywhere—are political. If it were not for political prejudice and the cry of exploitation it would certainly seem economical for Governments or enterprises to borrow at the relatively low rates prevailing in the West, rather than to rely upon raising more capital in their own countries, where interest rates are notoriously higher, or to obtain capital for development purposes by starving the social services budget for a generation or more. It is true that so long as this prejudice exists, and direct or concealed discrimination against the “foreign capitalist” is practised or threatened, it will not always be possible to raise money abroad. The price paid for indulgence in nationalistic sentiment is, therefore, very simply: a slowing down of the rate of development or a higher price, in terms of real sacrifices, for such development as there is.

The height of feeling against Western Capitalism is to-day so great that it is unlikely—even were the available

savings streams in the West as great as they were in the later nineteenth or early twentieth centuries—that private assistance from the West in the building up of the under-developed world will ever again play a major rôle. There remains the possibility of inter-governmental loans, or assistance by quasi-public bodies such as the International Bank, operating partly or directly through Governments, partly through projected inter-governmental organizations such as the much discussed "Danubian T.V.A." The purely technical possibilities here are obviously great: for it might be possible to supply jointly the capital equipment, the expertise, the detailed "know-how" and enthusiasm and goodwill. Ideological fanaticism over a large part of the area which most needs help of just this kind appears likely to delay and to restrict the practical application of these ideas.

With every postponement in the intensive application of capital goes a corresponding diminution in the possibility of expanding the national income and a corresponding increase in the difficulty of finding the resources necessary for the financing of the social and other services which are part of the true conditions of the "good life" in the modern world. The technical budget difficulties are, in any case, considerable. Even in westernized, capitalistically organized, agricultural communities, it is not always easy to subject the farming community to direct taxation of the kind which fits in most easily with the British budgetary tradition. Where a state is composed largely of small peasant farmers, small merchants and traders, poorly paid officials and a small professional class, the fisc must largely rely upon indirect taxation, and the low *per capita* income limits the possibilities of securing high returns per unit of population. Democratic governments in such areas tend to be weak and to be swayed by sentimental considerations such as those which led the quasi-independent Government of India under the pressure of Mr. Gandhi to abolish the salt tax. It is true that there may be found in such areas, also, a small sector of very wealthy men: large land-owners, money lenders and the like. Given that they are public spirited and honest, given also an incorruptible and technically competent Revenue Department, the application of an income tax is possible, and, in any case, is desirable. But these presuppositions are far from being always present. A violent social upheaval may, in the long run, change the

scene, but in the short run such violent changes may, in themselves, lower the taxable capacity of the area concerned even below what it would have been in the absence of any change at all. It is impossible to escape the conclusion that the transition to the "welfare state" is, in many parts of the world, a much more intractable problem than impatient social reformers are willing to admit. International organizations—UNO, UNESCO, the World Health Organization and the great American private foundations, may do something to speed the advance. Weighed against the needs of the immense populations demanding assistance, however, it is folly to expect too much.

THEODORE GREGORY.

Athens.

September, 1948.

Publications Received

EUROPEAN RECOVERY AND THE TOURIST INDUSTRY

By ERNEST W. WIMBLE, C.B.E.

(Published by The British Travel Association. Price 2/6.)

In the discussion of Western European recovery, and in particular of balance of payments deficits, the contribution that the tourist industry can make is sometimes overlooked. The publication of this report, prepared for the third post-war Conference of the International Union of Official Travel Organizations held at Oslo and Bergen in June this year is, therefore, to be warmly welcomed. Of particular interest is the analysis of the dollar income likely to be received from American visitors to Europe in the next four years. For example, it is estimated that by 1951 U.K. tourist earnings, exclusive of transport receipts, will have risen to £45 millions, over one-third of which will be in dollars. A survey is included of the progress made since the War in repairing and rebuilding railways, transport services, hotels, etc., whilst an appendix gives details of the capital investment in the tourist industry planned by different countries for 1948-51. As regards England, an approximation of railway hotel and refreshment services to continental standards would, doubtless, prove a very potent magnet to tourists.

A. P.

GOVERNMENT AND INDUSTRY

A SURVEY OF MACHINERY FOR CONSULTATION AND CO-OPERATION.

(H.M. Stationery Office. Price 9d.)

This is a useful reference booklet. Brief details are given of the functions, membership and organization, first, of bodies concerned with national economic planning problems such as the Economic Planning Board, and, secondly, of consultative bodies, such as the Fuel Efficiency Committee or the Engineering Advisory Council, which deal with problems common to all industries or with those of particular industries.

J. R. W.

Statistical Notes

THE TERMS OF TRADE.—The first chart on page 59 shows that each unit of our exports is now paying for a much smaller volume of imports than before the War, import prices having risen much more than export prices. As will be seen from the third chart on that page, in the second quarter of this year we were sending abroad 34 per cent. *more* exports (by volume) than in 1938 and receiving a 19 per cent. smaller volume of imports ; yet, as is shown by the second chart, our exports were still only sufficient to cover 73 per cent. of the *value* of the imports. In 1938, exports covered only 51 per cent. of the cost of imports, but in that year the greater part of the remaining gap was covered by invisible export income which has since disappeared.

INFLATIONARY TRENDS.—It is not easy, from the statistical material available, to obtain any direct evidence of the impact of Sir Stafford Cripps' disinflationary policy. We give, on pages 60 and 61, charts aiming at a conspectus of certain aspects of the problem. The first two charts on page 60 indicate that, so far as the Exchequer is concerned, the "true" surplus, after allowing for net below-the-line expenditure, amounted to £25 millions by the end of July (against an estimate for the whole financial year of £300 millions), permitting a smaller net repayment of debt than in the corresponding period of 1947/8. The fact that food subsidies, on the latest estimate, are running at an annual rate of £470 millions, must have contributed to reduce the surplus. Spending by the public, as reflected by the index of the value of retail sales, does not appear to have fallen off. Stocks, on the other hand, continue to grow ; wholesale textile houses, by the spring, were carrying stocks double, in value, those held at the beginning of 1946.

There is, further, little evidence yet of the rise in temporary unemployment that, as Sir Stafford has pointed out, disinflation would necessarily involve. By June there were, in fact, 45,000 fewer unemployed than in January, as compared with the Economic Survey estimate of an increase over the year as a whole of 150,000.

PRODUCTION AND PRICES.—By 1947 it is estimated that industrial production had recovered to the level reached in 1938. This contrasts with experience after the First World War, when, after the 1920 boom, it was not until the late 'twenties that the pre-war level was reached. Wholesale prices have been rising steadily since 1945. As a reflection of price control, the movement has been more gradual than that experienced after the 1914/18 War, but the net increase over the pre-war level is now greater than was the case three years after the termination of the earlier War.

IMPORTS AND EXPORTS.—The two charts on page 63 bring out the broad movements in our external trade since the turn of the century, in particular the peak reached in 1920, the slump after 1930 and the later recovery up to the outbreak of War. On the evidence of the first six months it appears probable that, in value terms, exports and imports in 1948 will set an all-time record ; exports during July in fact totalled £146 millions, the highest value ever recorded, and exceeding by £8 millions the previous peak of July 1920.

TEXTILES.—Though the trend is rising, production (page 65) by May this year was still some 20 per cent. below the pre-war figure. Wholesale prices, in contrast (page 64), show marked increases as compared with 1938, the steep rise for cotton in January this year being due to the removal of subsidies on cotton cloths. Exports have increased appreciably over last year's level but further progress will be necessary to achieve the end-1948 targets of 79 per cent. (cotton yarns and manufactures) and 202 per cent. (woollens and worsteds) of the 1938 volume. The numbers employed in the textile industries, in spite of the steady increase during the last two years, were in June still 170,000 below the figure for 1939.

BANK ADVANCES.—By May this year advances by the clearing banks exceeded the pre-war figure by more than 40 per cent., the greatest percentage increase being in loans to heavy industry. Financial and brokers' advances, on the other hand, were slightly below the 1938 level. The latest classification, for August, 1948, shows a total increase for all advances during the quarter of £30 millions.

PRICES OF METALS.—Of the four metals shown in the chart on page 67 only aluminium is now lower in price than before the War. The three other metals all show steep increases, relatively the greatest being that for lead, which by June this year had risen fivefold over the pre-war average. This movement differs from that experienced after the First World War, when prices generally declined.

CANADA—BALANCE OF PAYMENTS.—There was a sharp deterioration in Canada's balance of payments last year; though the net position remained favourable, this concealed a deficit with the U.S.A. almost double that for 1946, offset by a surplus with the sterling area and rest of the world. As a result, Canada had to draw \$743 millions from her gold and dollar reserves, which by the end of the year had been reduced to \$502 millions. This year, direct benefit will be obtained from E. R. P. to the extent that "off-shore" purchases in Canada are authorized. To the beginning of August such authorizations amounted to almost \$200 millions, or one-fifth of all E.R.P. funds allocated, and Canada has been supplying 70 per cent. of all Marshall goods shipped to Britain.

U.S.A.—Some of the more significant recent trends in the American economy are depicted in the charts on page 69. Wholesale prices of raw materials and farm products had, by the summer, almost reached again the level touched before the recession at the beginning of the year. As regards the banks, commercial loans have lately shown little movement after the almost continuous increase since the end of the War. Bank holdings of Government securities, on the other hand, show a continuous fall due, indirectly, to the Treasury using its current cash surplus to redeem debt. It is probable that the rate of increase in consumer credit outstanding, which by May this year had more than doubled since end-1945, will now slacken off following the restoration to the Federal Reserve Board of its war-time authority to regulate instalment lending.

DENMARK.—The tables on page 70 bring out some of the economic trends dealt with by Professor Iversen in his article in this issue. Great Britain remains one of Denmark's best customers, though her relative importance has declined as compared with 1938, when over half of Danish exports were shipped to this country. Although industrial production is above the pre-war level, agricultural output by the end of 1947 was still only three quarters of the 1938 average.

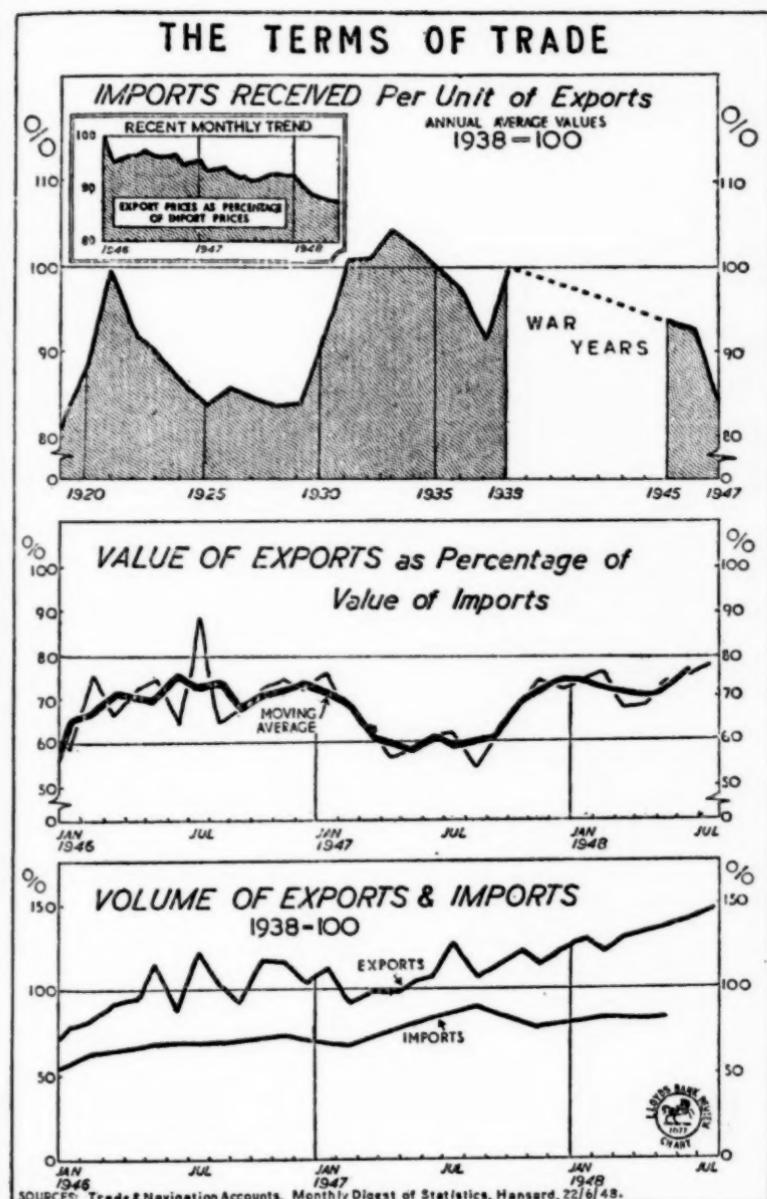
LLOYDS BANK INDEX OF CLEARING BANK DEPOSITS

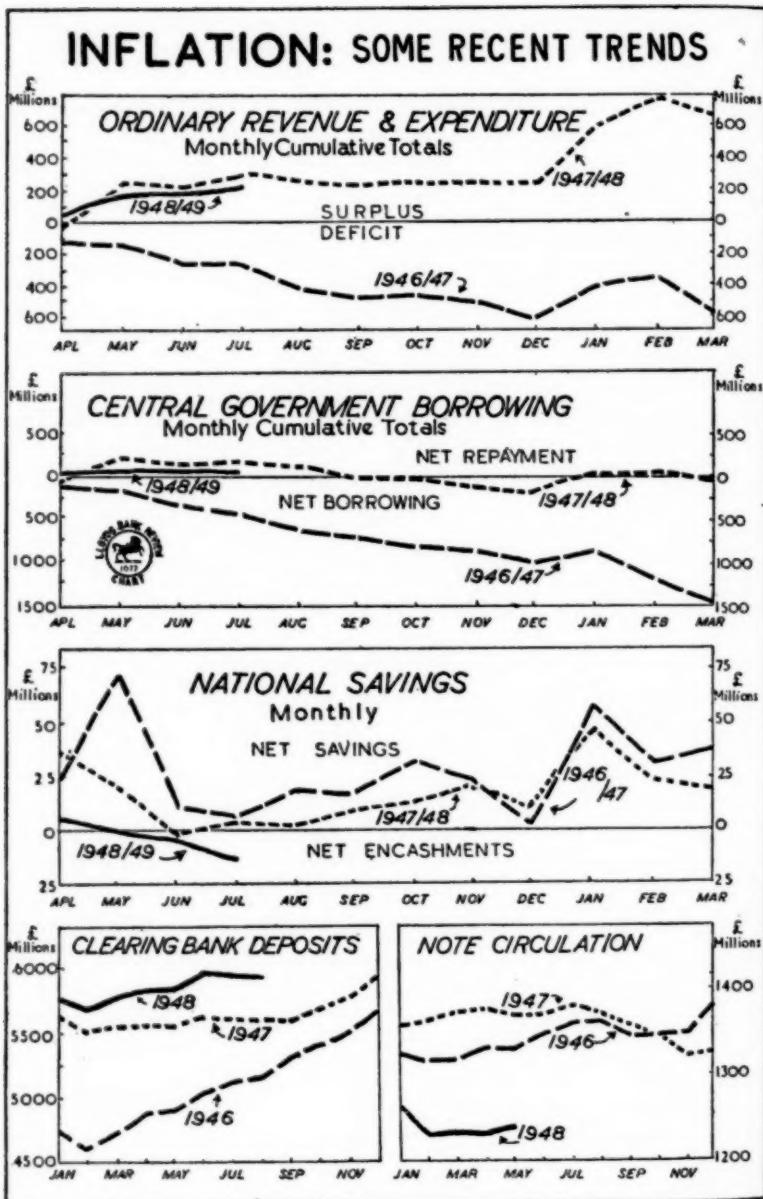
Adjusted for seasonal variations.

1938 = 100

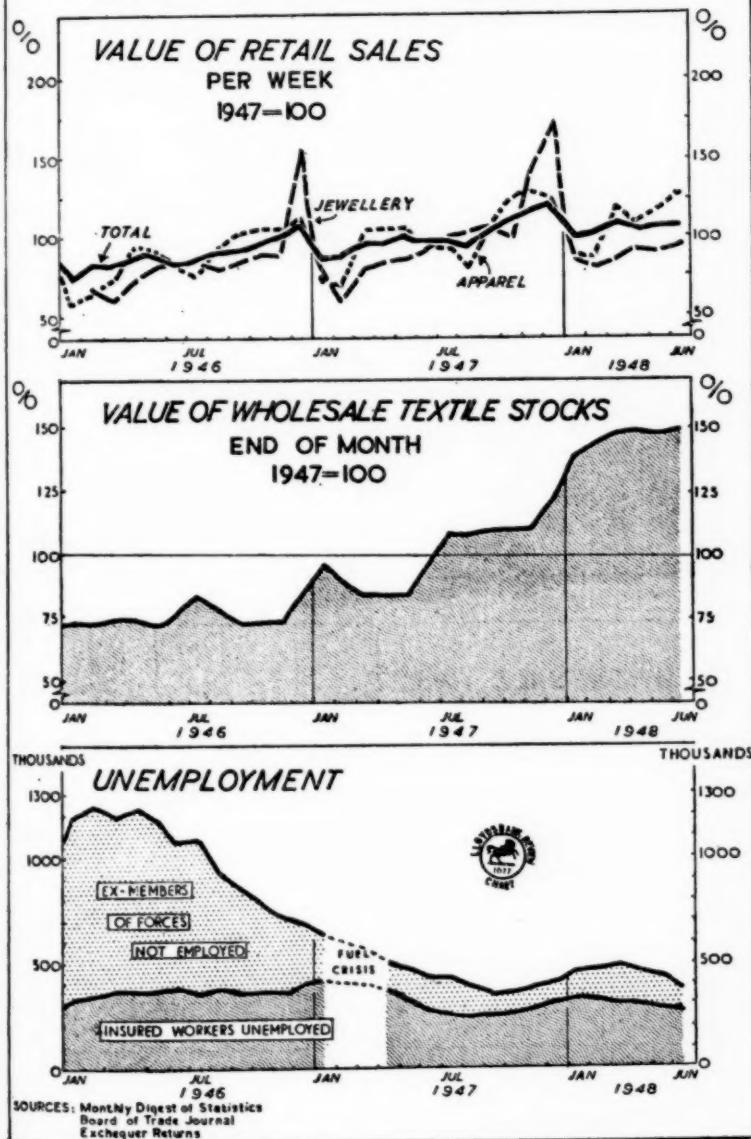
			1948*	1947*
April ..	..	..	261.5	249.3
May ..	..	..	261.8	248.8
June ..	..	..	261.5	248.7
July ..	..	..	260.0	248.7
August ..	..	..	260.0	248.2

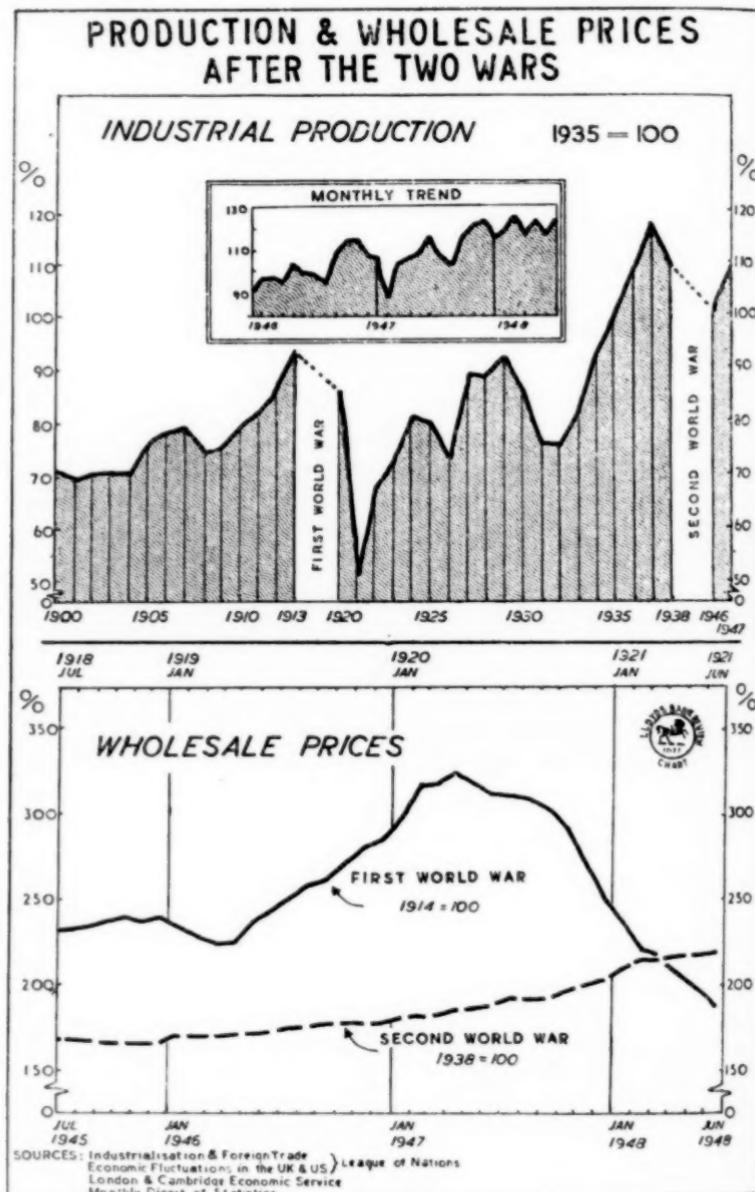
* Provisional figures.

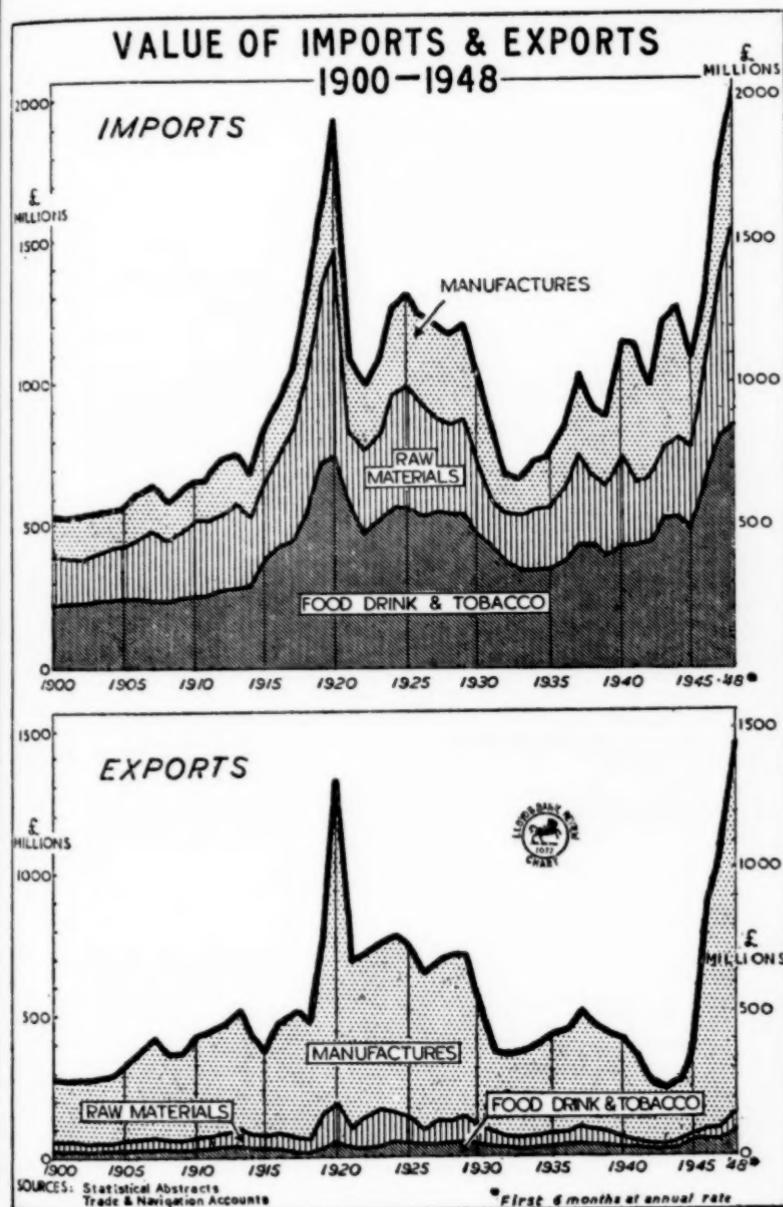


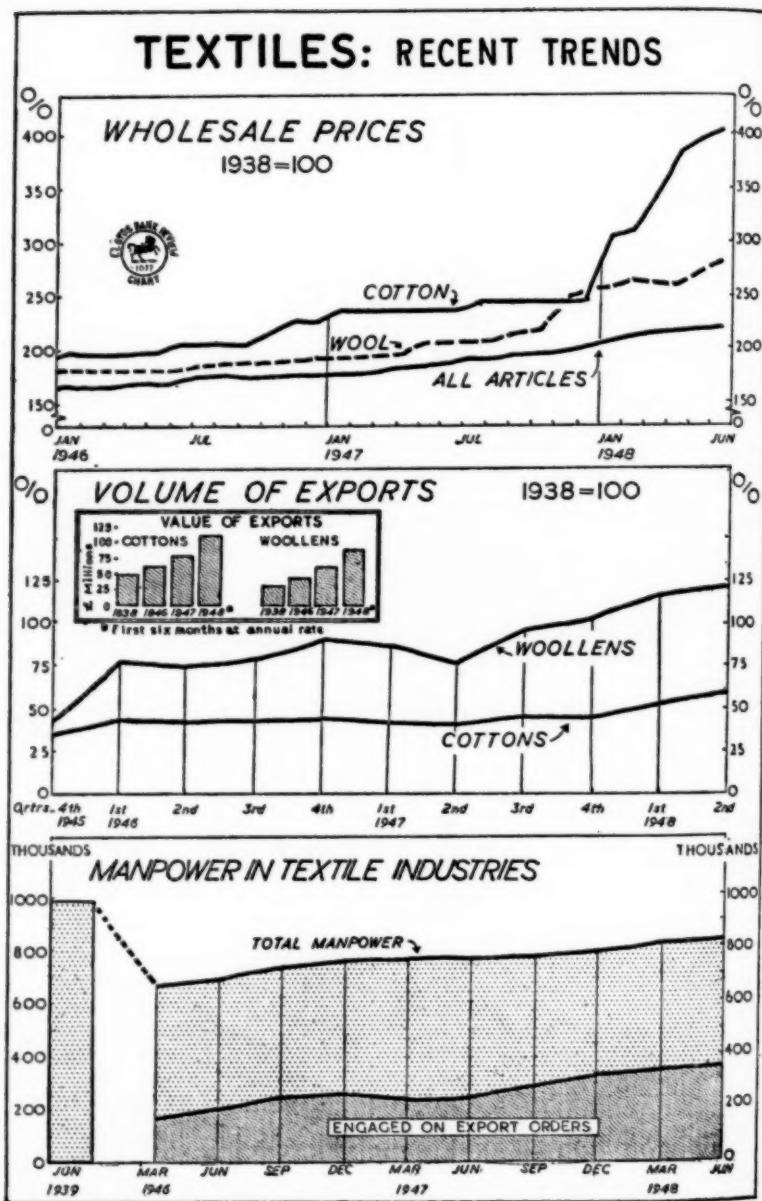


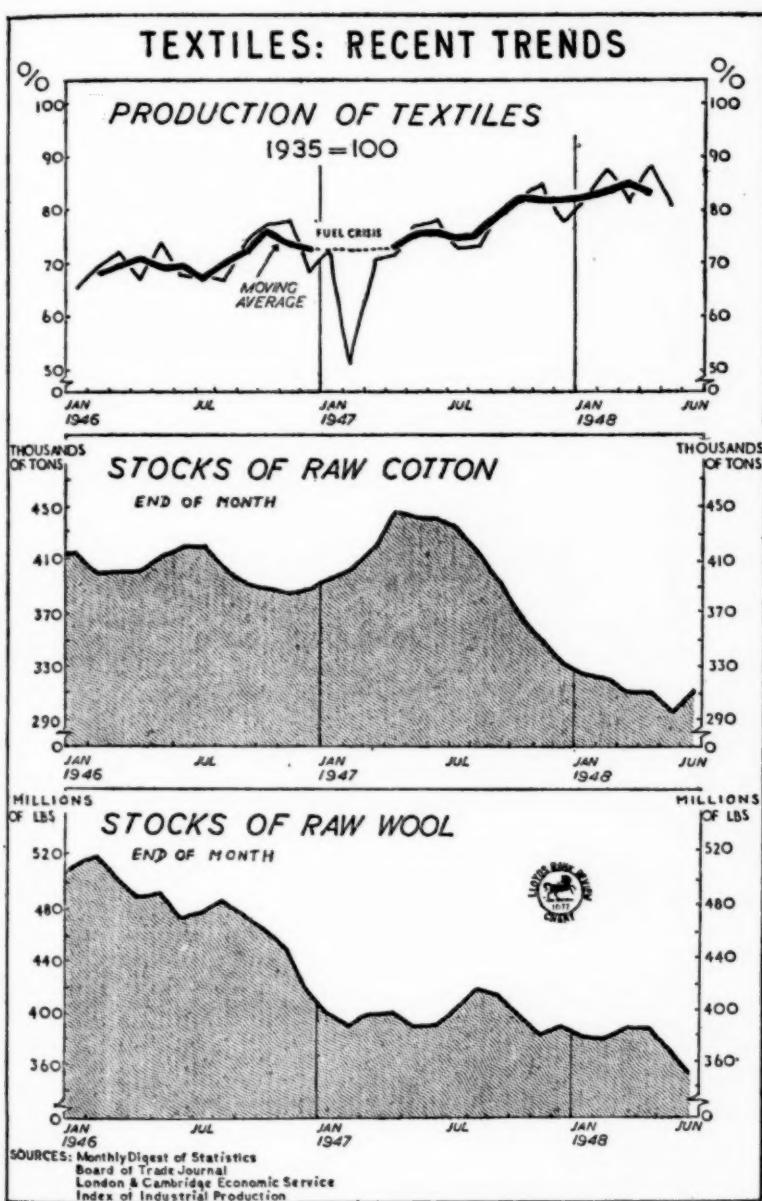
INFLATION: SOME RECENT TRENDS

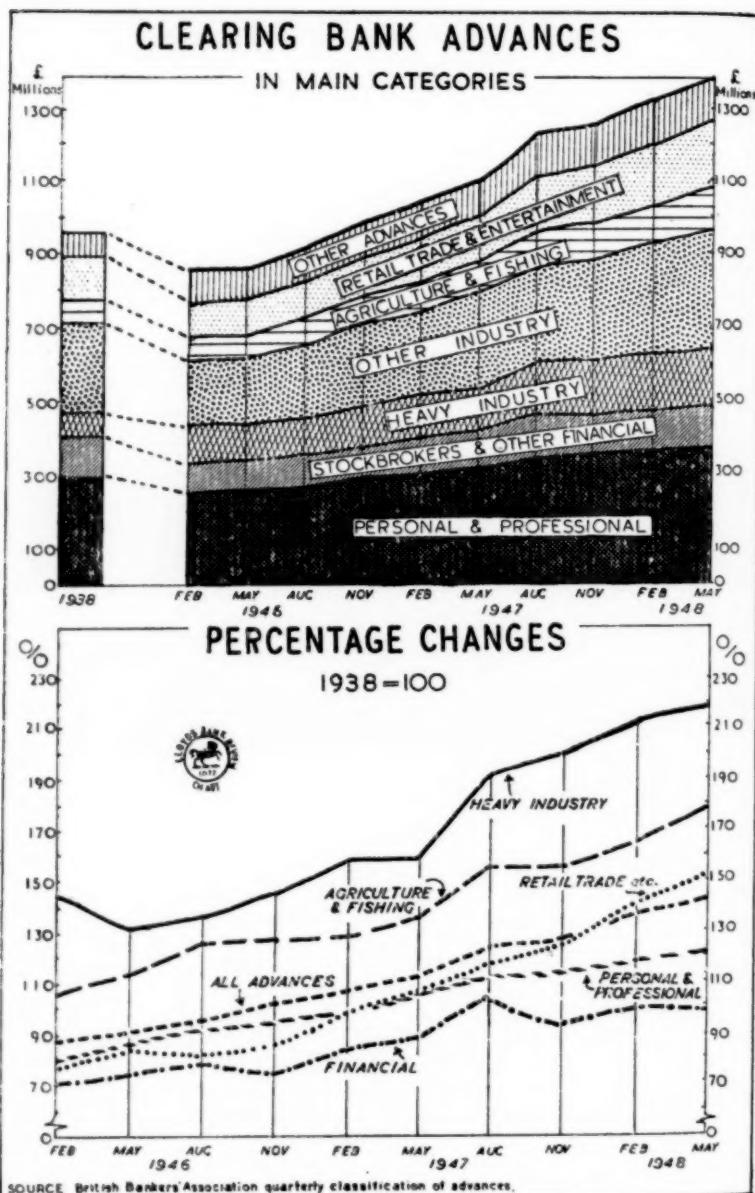






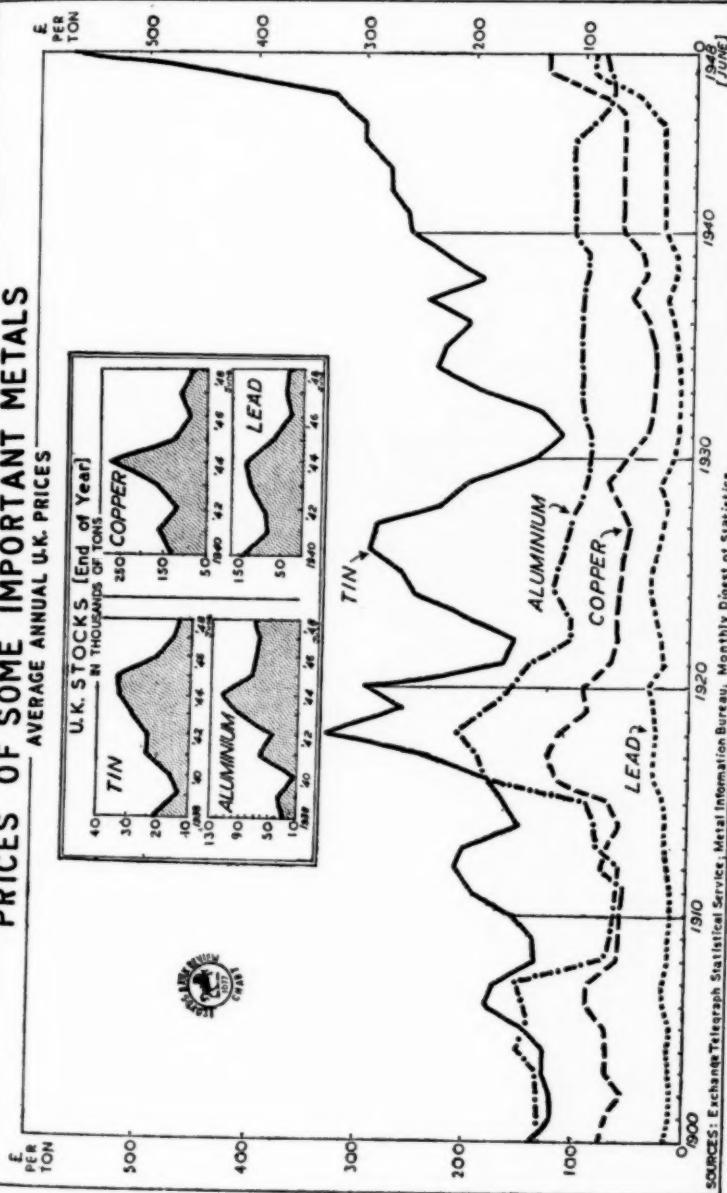






PRICES OF SOME IMPORTANT METALS

AVERAGE ANNUAL U.K. PRICES



SOURCES: Exchange Telegraph Statistical Service, Metal Information Bureau, Monthly Digest of Statistics.



CANADA : BALANCE OF PAYMENTS 1947

CURRENT ACCOUNT										
Millions of Canadian\$										
	PAYMENTS				RECEIPTS					
	U.K. and Sterling Area	U.S.A.	Rest of World	Total		U.K. and Sterling Area	U.S.A.	Rest of World		
Merchandise Imports	342	1,951	242	2,535	Merchandise Exports	1,116	1,145*	548	2,809	
Tourists	12	152	3	167	Tourists	8	235	2	245	
Freight	41	217	17	275	Freight	153	102	66	321	
Interest and Divi- dends	52	274	9	335	Interest and Divi- dends	12	36	14	62	
Remittances	8	37	4	49	Remittances	48	18	3	69	
Other Payments	55	203	29	287	Other Receipts	45	160	22	227	
Official Relief	—	—	38	38	Total Receipts	..	1,382	1,696	655	3,733
Total Payments	510	2,834	342	3,686						
Balance (see below)	+ 872	- 1,138	+ 313	+ 47						

* Including \$99m. for net exports of non-monetary gold.

SETTLEMENT OF CANADA'S BALANCE

with: U.K. AND STERLING AREA

Drafts on Credit by U.K.	423	Export Surplus† ..	..	872
Dollars, etc., received from U.K.	505	Inflow of Capital to Canada	..	53
		Balancing Items ..	..	3
	928			928
		with: U.S.A.		
Import Surplus†	1,138	Dollars, etc., received from—		
Subscription to I.M.F.	74	U.K.	505	
Outflow of Capital to U.S.A. ..	163	Rest of World	133	
Balancing Items	6			638
	1,381	Drafts on Canadian Reserves ..	..	743
				1,381

with: REST OF WORLD

Drafts on Credits by Foreign Governments	140	Export Surplus† .. ..	..	313
Dollars, etc., received from Foreign Governments	133	Balancing Items .. ..	..	4
Outflow of Capital from Canada	44			
	317			317

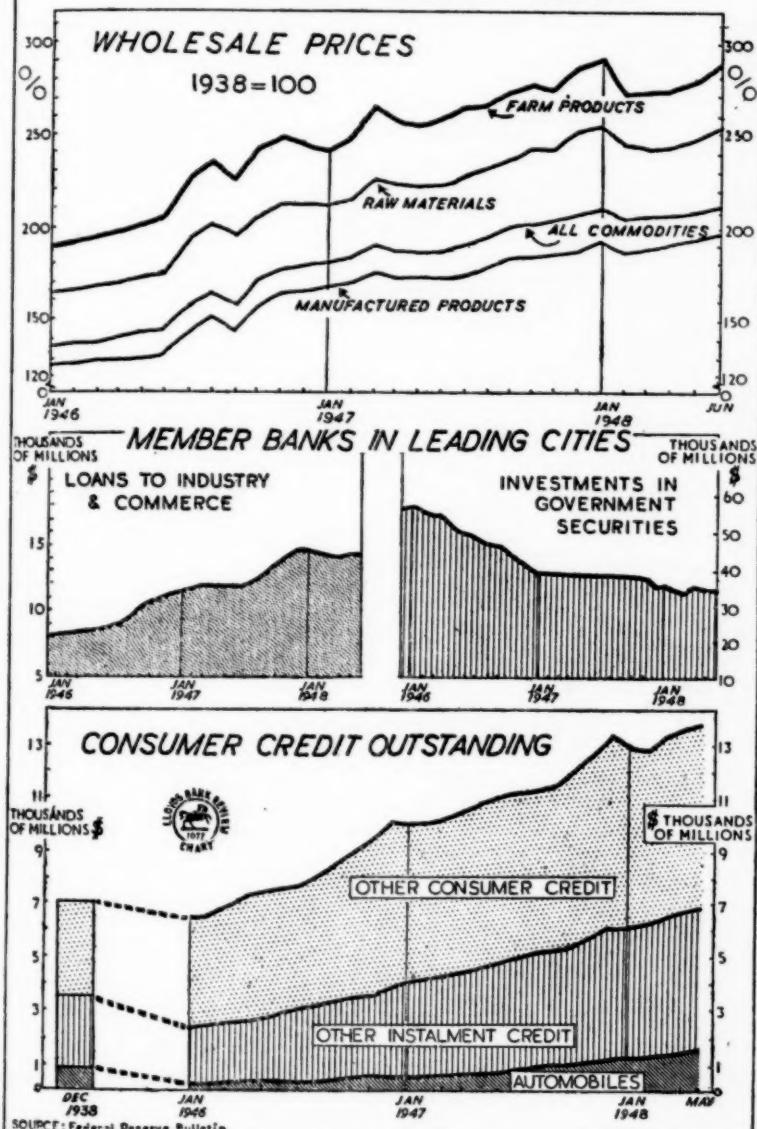
with: ALL COUNTRIES

Drafts on Credits by—		Net Export Surplus† .. ..	..	47
U.K.	423	Drafts on Canadian Reserves .. ..	..	743
Other Foreign Govern- ments	140	Balancing Items .. ..	..	1
	563			
Subscription to I.M.F.	74			
Net Capital Outflow	154			
	791			791

† Including all invisible items.

Source : Annual Report for year 1947 of Canadian Foreign Exchange Control Board.

U.S.A.: SOME RECENT TRENDS



DENMARK: ECONOMIC TRENDS

FOREIGN TRADE

Millions of Kroner	Imports	Exports	Trade Balance
1938	1,665	1,589	— 76
1946	2,864	1,633	— 1,231
1947	3,144	2,371	— 773

PERCENTAGE DISTRIBUTION

	IMPORTS			EXPORTS		
	1938	1946	1947	1938	1946	1947
U.K.	34.6	45.3	21.8	56.1	31.8	24.9
Germany	24.6	4.1	3.5	19.8	4.5	2.0
Scandinavia	9.1	12.0	12.0	7.5	17.0	14.4
U.S.A.	7.9	9.0	19.6	1.1	3.1	3.7
Rest of World	23.8	29.6	43.1	15.5	43.6	55.0
	100.0	100.0	100.0	100.0	100.0	100.0

ESTIMATED CURRENT BALANCE OF PAYMENTS

Millions of Kroner	1938	1946	1947
Balance of Merchandise Trade ..	— 76	— 1,231	— 773
Other Current Items (net) ..	+ 192	+ 281	+ 360
Balance on Current Account ..	+ 116	— 950	— 413

FINANCE

Millions of Kroner	NATIONAL BANK			COMMERCIAL BANKS		
	Note Issue	Gold Holdings	Foreign Assets		Foreign Exchange (net)	
			Clearings	Other (net)		
End of 1938	482	118	—	+ 84	+ 24	2,305
1945	1,561	83	+ 121	+ 81	+ 86	5,906
1946	1,633	83	+ 112	— 595	+ 82	5,785
1947	1,641	71	— 22	— 665	+ 26	5,436
1948 (April)	1,512	70	+ 22	— 488	+ 7	5,456

PRICES AND PRODUCTION

Indices 1938 = 100	Cost of Living	Wholesale Prices	Industrial Production	Agricultural Production (Animals and Products)
1938	100	100	100	100
1939	102	105	107	102
1940	127	154	86	99
1941	147	182	82	67
1942	153	190	86	54
1943	156	192	88	63
1944	157	194	87	72
1945	159	190	74	67
1946	158	187	101	76
1947	163	208	112	75
1948 (April)	165	222	124	66

Sources : International Financial Statistics (I.M.F.)

Danish Statistical Office.

League of Nations "Money and Banking, 1940-42."